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ABSTRACT

The public sector is becoming less concerned with who is providing a given service but more concerned about the quality, reliability, accessibility, and price of the service. In vocational education and training (VET), one consequence of this transformation is that the various public stakeholders involved with funding, purchasing, and providing VET are increasingly being separated, ensuring that overlaps in responsibilities and sometimes contradicting interests of public stakeholders are minimized while guaranteeing a greater accountability of the various agencies, whether public or private. The corporatization of the Swedish public training provision system, the AMU-Gruppen, is a clear example of deregulation and market orientation of a formerly highly public body with an almost monopolistic position. The process, which started in 1986 with the AMU-Gruppen being transformed from a division under the national board of education to an autonomous agency, may end with the privatization of the entire structure. Likewise, the restructuring of the Dutch VET system, which has resulted in the establishment of regional training centers, has been a long process, initiated by legislation in 1987 that resulted in the first mergers, and continuing so that by 1998-99, the total number of publicly funded VET institutions has dropped from 396 to 65. (Contains 127 references.) (KC)

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reorganisation or privatisation?

Long-term changes in Sweden and the Netherlands

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Discussion dossier

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Transforming the public provision of training: reorganisation or privatisation?
Long-term changes in Sweden and the Netherlands

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Foreword

It can be argued that the public sector is becoming less concerned with who is providing a given service while becoming more concerned about the quality, reliability, accessibility and price of the service in question. Traditional public domains like health care and education may still be publicly funded but private or non-governmental providers are increasingly becoming involved in the production, the distribution or the administration of the service or product. That the area of vocational education and training has been, and still is, subject to organisational restructuring, introduction of market principles and even privatisation in the last decade can therefore be seen in a wider perspective of public sector transformation.

One consequence of this transformation is that the various public stakeholders involved with funding, purchasing and providing vocational education and training are increasingly being separated. This ensures that overlaps in responsibilities and sometimes contradicting interests of public stakeholders, which both provided and purchased services, are minimised while guaranteeing a greater accountability of the various agents, irrespective of whether they are public or private.

The corporatisation of the Swedish public training provision system, the AMU-Gruppen, is a clear example of deregulation and market orientation of a former, highly public body with an almost monopolistic position. The process, which started in 1986 with the AMU-Gruppen being transformed from a division under the national board of education to an autonomous agency, may end with the privatisation of the, at the present time, corporatised body.

Likewise, the restructuring of the Dutch vocational education and training system, which has resulted in the establishment of regional training centres, has been a rather long process initiated by legislation being adopted in 1987 resulting in the first mergers. Between1993/94 and 1998/99, the total number of publicly funded VET institutions has dropped from 396 to 65 institutions through the merger process (though not affecting the total number of student intake).

This report examines some of these changes specifically within the Netherlands and Sweden. The Dutch analysis focuses on the organisational changes and the rationale behind them while the Swedish analysis focuses more on the political processes.

The report comprises three main parts. The first part provides a general introduction to the reforms of the provision of public services. The latter section of this part concentrates on the advantages and disadvantages of public training provision systems. The second part analyses the organisational adjustment of the Dutch public provision of vocational education and training. The process started in the mid-eighties and has recently come to a temporarily conclusion with the establishment of the regional training centres (ROCs). The political, economic and administrative reasoning and adjustments, which have contributed

to the process, are analysed and discussed. The third part analyses the transformation of the Swedish public CVT provision system, the AMU-Gruppen, from a division directly under the Ministry of Labour to that of a public corporation. The management and organisational consequences, as well as AMU-Gruppen's market position, are analysed and discussed.

The first part was prepared by Mr. Sven-Åge Westphalen, CEDEFOP, and Ms. Jittie Brandsma, University of Twente; the second by Ms. Jittie Brandsma; and the third by Mr. Richard Noonan, Swedec International AB.

Each part can be read independently to offer the opportunity for readers already familiar with the area of transformation of public training provision systems to jump directly to the field of specific interest. Readers without specific knowledge of the topic will benefit from reading Part 1 first, since it provides a general and theoretical introduction to the new public management thinking as well as a discussion about public training provision on the market.

The report does not include an overall conclusion but Parts 2 and 3 each include a concluding section based on the individual analyses.

The report forms part of the discussion dossiers, which aims at presenting short but detailed studies on specific trends related to the vocational education and training area.

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SEK: Average selling rate for ECU/Euro and USD, 1991-1998

	1991	1992	1993	1994	1995	1996	1997	1998
1 ECU / Euro	7.45	7.52	9.10	9.14	9.23	8.40	8.62	8.90
1 Dollar (New York)	6.16	5.81	7.80	7.71	7.13	6.70	7.64	7.95

Source: Statistics Sweden. Statistical Yearbook 1999, Table 324. Stockholm: Statistics Sweden.

Note: Figure for 1991 is based on period July–December. Figure for ECU 1998 estimated.

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List of abbreviations

The Netherlands

BBS	Contribution scheme for sectoral training
BBSW	Compensation scheme for training of unemployed
BE	Adult basic education
BKE	Projects for vocational qualifying education
BOOB	Sectoral consultation committees
BVE-council	Council for institutions providing education and vocational training
BVL	Contribution scheme for apprenticeships
CBB	Centres for vocational orientation and preparation
CREBO	Central register vocational training programmes
CTSV	Board of Control on Social Insurances
CV	Centres for vocational training
CWI	Centres for work and income
HRD	Human resource development
KRS	General training arrangement
KSE	Qualification structure education
LISV	National Institute for Social Insurances
LIWI	National Institute for Work and Income
MOCW	Ministry of Education, Culture and Science (until 1994 Ministry of Education and Science; MOW)
NVQ	National vocational qualifications (UK)
PBVE	Primary vocational qualifying education
ROC	Regional training centre
SVM	Operation sectoralisation and innovation in senior vocational education
VET	Vocational education and training
WEB	Law on education and vocational training

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Sweden

AB	Aktiebolag Limited liability corporation
Af	*Arbetsförmedlingen The Swedish employment services*
ALU	Arbetslivsutveckling Working life development
AMI	Arbetsmarknads institut Labour Market Institute
AMS	Arbetsmarknads styrelsen Swedish National Labour Market Board
AMU	Arbetsmarknads utbildning Labour market education and training
AMV	Arbetsmarknads verket Swedish National Labour Market Administration
API	Arbetsplats introduktion Work place introduction
CVT	Continuing vocational training
IT	Information technology
Komvux	Kommunal Vuxen utbildning Municipal adult education
LAN	Länsarbetsnämnd County Labour Market Board
OECD	Organisation for Economic Cooperation and Development
Skolverket	National Agency for Education
SCB	Statistiska centralbyrån Statistics Sweden
SEK	Swedish crown (see exchange rates below)
SSV	National schools for adults
SÖ	Skolöverstyrelsen Swedish National Board of Education. Replaced in 1991 by the National Agency for Education

Part 1 Theoretical considerations

In the last 20 years public organisations have increasingly been scrutinised and questioned as to their very existence. Institutional reform and organisational change in the public sector is often based on the ideas formed by what is now commonly known as the 'New Public Management' thinking. Strongly influenced by management strategies in the private sector, New Public Management thus emphasises incorporating elements of corporatisation, privatisation and commercialisation into the public sector. This includes, amongst others, improved budgetary control systems, a greater reliance on competitive tendering and contracting out of some services provided by the public sector. Further, other elements include a greater reliance on financial incentives and market principles, major changes in institutional designs as well as the placement of many service-delivery functions in separate, non-departmental, agencies or even to private providers. In other words, some public organisations are – to varying degrees – moving from a situation of monopoly to a situation of competition and possible elimination/privatisation.

1.1 The transformation of the public sector

Fundamental changes to a given system of organisational structures, administrative behaviours and decision-making traditions normally take place if the system itself is worn out or if internal or external pressures demand changes. Both factors have been present in the reasoning behind the structural reforms of the public sector seen in most Western countries to a significant degree from the mid-1980s.

The starting point can, in simple terms, be found in the imbalance between continuously increasing demand for services and limited public budgets. However, aside from these fundamental issues, it was also generally perceived that the public sector increasingly failed to provide its services at a reasonable level of quantity, quality and cost-effectiveness while also failing to respond to an increased demand for responsiveness towards users and their specific needs.

Irrespective of the common characteristics of the pressures for reforming public services, the response to this cannot generally be seen, with the notable exception of New Zealand and perhaps Australia, as a 'grand design' by policy-makers for an overall reorientation of the public sector. Rather, one can talk about a process of incremental changes, which has more or less followed the same track towards increasing the quality and efficiency of services provided by the public sector. Alongside this process, and feeding into it, is the general political debate about the size, role and responsibilities of the public sector, which has lead to the use of instruments like corporatisation, outsourcing and even privatisation of hitherto strictly public domains.

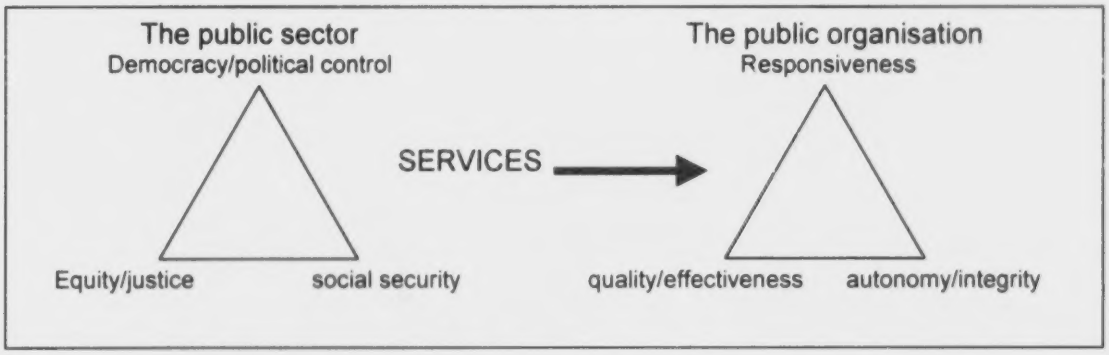
A major feature of the new public management is thus the introduction of market mechanisms to the running of public service organisations or, in other words, the marketisation of the public service (Walsh, 1995, p. xi). This has also led to a large increase in organisations in the 'grey' sector, i.e. the sector between strictly private and strictly public organisations (Greve, 1998), as illustrated in Figure 1 below (this phenomenon is also termed 'quango' which encompasses 'quasi autonomous non-government organisations').

Figure 1 The grey sector

Public sector	Grey sector	Private sector
E.g. ministries	Self-governing institutions under the auspices of public authorities Corporations with the public having majority or minority ownership Private enterprises operating on behalf of public authorities Private enterprises providing services guaranteed by public authorities	E.g. enterprises
E.g. vocational schools	Social partners and the public sector sharing responsibilities on funding, administration and development of vocational education and training	E.g. trade unions and employers' associations

Market economic thinking and management has become an increasingly visible and dominant feature within the public sector generally and, hence, also within the area of vocational education and training. However, despite the rationale for utilising market economic principles, the public sector still has specific characteristics, rendering direct comparisons between public sector and private sector activities impossible even if the differences have diminished in recent years. This can be illustrated in the following figure concerning legitimacy in the public sector generally and in public organisations specifically.

Figure 2 Legitimacy of the public sector and public organisations



As public services are increasingly considered as being delivered by public organisations or by organisations in the grey sector, and not by the public sector as such, the legitimacy behind such organisations changes towards more market based values, i.e. with less focus on the elements constituting the legitimacy of the public sector generally. Of the six pillars listed below, which constitute orientation points for public services, the first three relate specifically to obligations for the public sector, which still have a spill-over effect for public organisations whereas the final three accrue for both public and private organisations:

(a) equal access;

(b) accountability;

(c) transparency;

(d) cost-efficiency;

(e) productivity;

(f) quality assurance.

Equal access remains a core concern for the public sector. If a government decides to provide a given service it is not politically possible to exclude people who qualify for the service or qualify for competing for the service. Free access to education and training is a classical example.

Accountability is another demand on public budgets. Private organisations can dispose of their resources as they like but the public budget is subject to acceptance by parliaments which annually vote for adopting the state budget. In other words, public governing bodies are subjugating to democratic control.

Transparency of publicly run bodies is another mechanism designed to uphold democratic control. Access to the accounts of public bodies and an annual presentation of public budgets is, in most countries, ensured by law, which goes far beyond the requirements imposed upon private organisations.

While *cost-efficiency*, *productivity* and *quality assurance* are not new phenomena within the public sector, it has nevertheless often been considered impossible to quantify, and thus qualify, the level, costs and quality of public services to the same degree as private production and services. Current thinking, however, suggests that many limitations to efficiency and effectiveness indicators have, in fact, proved to be imagined rather than real, or, to put it more frankly; the limitations have been culturally or ideologically based rather than formed out of management or economic rationales.

In fact, there are several ways of adjusting objectives and expectations so they can match realities in terms of resources and knowledge. These include, amongst others, looking at the opportunities to:

(a) increase productivity;

(b) use existing resources better;

(c) accept lower quality;

(d) increase the budget;

(e) change the objectives.

However, given the 'continual demand to deliver more, and better, for less (Cabinet Office, UK, 1999)' the public sector is under constant pressure to improve quality and productivity and, hence, is looking for new or improved methods rather than changing objectives or lowering quality. In recent years many governments have therefore intensified and prioritised the objective of 'streamlining,' 'modernising,' or 'reforming' the public sector and reducing 'red tape (reducing bureaucratic procedures for individuals and enterprises). (Federal ministry of the Interior, Germany, 1999, Cabinet office, UK, 1999, Ministry of the Interior and Kingdom Relations, the Netherlands, 1999).'

In other words, policy responses have been to test both new structures as well as new processes, as will be shown in the following examples.

1.1.1 Management by objectives

The budget will always set economic limitations and, as such, maintain a pivotal role in determining the operation and possibilities of a given organisation. However, within a given economic setting, management by objectives provides more clearly defined objectives for an organisation as well as increasing the autonomy of the management in deciding how to achieve the objectives. In this way, management by objectives is the adversary of classic public management through (centralised) regulation and formalised procedures.

1.1.2 Deregulation and decentralisation of decision-making

The steering system for public organisations has gradually changed from detailed regulations and ex-ante budget controls to management by objectives and lump-sum budgets accompanied with ex-post reporting, auditing and evaluation (see also Tiihonen, 1999). Financing, framework regulation and the establishment of output targets remain core activities for the central public administration whereas the provision of the services and the consequent management can take place at lower levels.

The amended control mechanisms enhance the potential for increased flexibility and decentralisation of decision-making, albeit still controlled within a general framework. This also offers the ability to empower management at lower levels, giving them more room to manage while enabling central administration to exercise control through a focus on outputs by establishing quality and productivity targets as well as to concentrate on overall strategy and planning issues.

1.1.3 Increased management autonomy

A consequence of deregulation of decision-making is increased management autonomy at each level. On the one hand, ministries of finance exercise increased influence as ministries responsible for the state budget. On the other hand, within the allocated budget, resort ministries exercise increased influence on defining and carrying out policies. In addition, agencies, regional and local authorities, and even the individual institutions under each ministry, are given similar autonomy within a given budget and a given set of objectives and targets.

Result management is gradually being introduced by central administrations,meaning that managers are hired on the basis that they have to meet a set of specific targets in terms of quality or quantity (Økonomistyrelsen, Denmark, 1998; Tiihonen, 1999). Managers in agencies, institutions and even in some units within ministries are thus no longer merely headed by administrative managers appointed according to seniority. Increasingly managers are hired – and fired – on the basis of the results they have achieved.

With budget allocation dependent on actual intake or output, managers of, for example, a vocational training college, exercise greater influence on expenditure. This includes the possibility to transfer money from one budget line to another, for instance between purchase of equipment and salaries to training staff.

Within the vocational education and training context, management has thus been given incentives for increasing productivity and the potential to increase external sources of funding.

Perhaps the most significant sign of extended management autonomy is increased deregulation of personnel policy. This implies that management can hire, fire and promote more freely within their organisation than hitherto, thus freed from the often very tight and formally specified personnel policies in public administrations.

It must be mentioned that the Swedish case study provides interesting insights into problems that arise when directors are appointed on the basis of political merit and not on the basis of management experience.

1.1.4 Separation of funding and provision

Besides increasing the autonomy of public agencies and institutions, there is another mechanism increasingly being utilised for improving the efficiency of publicly funded services – market simulation.

The first step in achieving this is separation of the funding source from the provision agency. Typically, the state has provided both the funding for, as well as the provision of, a given service, effectively establishing a monopolistic situation, which generally does not provide incentives for optimal use of resources. The restructuring of the VET area, as in

other sectors, implies that the public is still willing to provide the funding but is gradually becoming less willing to be directly involved in the provision of training. Instead, the public increasingly favours steering the training market through funding mechanisms, regulations on quality, certification, etc.

1.1.5 Demand-side versus supply-side oriented policies[1]

The structure of public service provision generally has been the subject of a continuing debate that has included the training sector. Traditionally, public sector training provision has been characterised by a system of monopolistic providers attended by individuals with an entitlement to follow a training programme. This provision has often been funded on supply-side criteria, i.e. giving budgets to suppliers on the basis of historical or administrative factors.

Demand-side funding, on the other hand, provides funding to training providers on the basis of actual demand, such as number of enrolled students. Funding may also be distributed through individuals by empowering them with vouchers or by providing free choice between training providers. The latter approach, however, requires that there is a real choice between competing training providers.

The introduction of demand-side financing mechanisms into public sector provision has been, in some cases, explicitly linked to the introduction of market principles into education and training systems and the deregulation of training supply. In certain countries a 'purchaser-provider' split has been introduced. Under this principle, the government (or its agencies) purchases a service from accredited training providers on behalf of 'consumers', rather than providing the service itself.

1.1.6 Outsourcing and privatisation

Outsourcing in multiple forms and functions is an essential part of the marketisation of the public sector, as already indicated. It follows the separation of funding and provision as well as the emphasis on increased demand-side funding. A Dutch survey found that quangos in the Netherlands are essentially used for four types of tasks (Greve, 1998, p. 52):

(a) transfer of money

(b) supervision and inspection

(c) regulation

(d) research and development

---

[1] See also the Cedefop report on Demand-side financing – a focus on vouchers in post-compulsory education and training: discussion and case studies, on http://www.trainingvillage.gr.

Outsourcing covers the broad continuum between strictly public organisations and strictly private organisations. As such, it has been a means used by public sectors to incorporate market values in the provision of services while still maintaining a certain degree of public control. This is the reality for most of the quangos existing today, including the area of VET as is discussed later

The final step is, evidently, a full privatisation of the services purchased by the public sector. In this the public sector refrains from exercising any control over the supply of a given service apart from the demands raised as a customer. This step is, however, unlikely given the expressed interest by most governments to retain some influence on either training input or output, be it in quantitative or in qualitative terms.

1.1.7 Final remarks

The transformation of the public sector is a balance between, on the one hand, increasing demands for public services and limited resources to meet these demands and, on the other hand, ensuring the highest possible level of quantity, quality and cost-effectiveness while preserving the values of the common good.

This balance has found its most distinct expression through the enforced use of quangos in the grey sector. This ensures public control over the services to be provided while utilising the positive elements from the market in the actual provision of the services. However, most organisations in the grey sector do not, despite the introduction of market mechanisms, operate in a 'real' market situation. The public remains, directly or indirectly, as the determining body, establishing and designing the markets where substantial public funding is spent. Consequently, the markets, even if the providers are private, need to be somewhat controlled in order to avoid the development of non-transparent markets where the spending of public money cannot undergo revision. This is perhaps the most intriguing dilemma between the rationales in the public and the private sectors.

The remaining part of this section deals with the general issue of public versus market based training provision, possible pro's and con's and rationales of transforming a system of public training provision into a (more) market-based training system.

1.2 Public VET providers in the market

The question of whether training should be provided publicly or privately is becoming a core issue and is generating debate. Some stress the necessity of private provision given the increasing pressures on, and restrictions of, public budgets (Schedler, 1996) while others advocate an increase of private provision to reap the expected benefits from implementation of market mechanisms. At the same time, opponents indicate that markets do not work in education and training and that marketisation will result in unintended and undesirable side effects (cf. Whitty & Power, 1997).

The debate on public-private provision is not restricted to vocational education and training. The abundance of (mainly Anglo-Saxon) literature on installing market mechanisms, such as parental choice, vouchers, individual training accounts or credits, etc. shows that marketisation is becoming an issue in primary and secondary education as well, including initial vocational training.

1.2.1 Markets in education and training

A well-known conceptualisation of the 'market' as an abstract place where supply and demand meet, is the neo-classical model. In this model, market equilibrium is reached if supply and demand is matched completely, with the price mechanism as the ruling principle to establish this equilibrium. If supply falls, prices will rise until demands drop to a level equivalent to supply, and vice versa. The model is based on the assumption of perfect competition, which implies:

(a) goods/services are homogeneous (no difference in quality or other relevant characteristics);

(b) there is competition, which neither suppliers nor consumers can influence individually and there are no monopolies nor non-profit institutions (full competition at the demand side);

(c) the market is transparent: both suppliers and demanders have insight into what happens in the market at any time;

(d) the market is flexible and does not know any restrictions due to legislation or other regulations (cf. Brandsma, 1994a).

The model allows distinction between market segments, based on the idea that demand and supply in one segment operate relatively independently from demand and supply in another segment, though some interaction could occur. Adaptation of demand and supply in order to restore the equilibrium can take place through adaptation of price levels, but also through substitution with other segments. Nevertheless, the assumption is that there is perfect competition within market segments as well.

It is the underpinning assumptions concerning the structure of the market that have received most criticism. Critics of the neo-classical model point out that the market is fragmented, with each market segment having its own specific traits. Switching from one market to another is not always that easy, as has been pointed out especially in the context of labour markets and industrial markets. In this respect, the training market is segmented as well, with, for instance, differential access for employees to the internal training market, e.g. unskilled or low skilled workers, older workers and, to a lesser extent, female workers, being (partly) excluded from access (Brandsma, 1994a). Markets, especially labour markets but also training markets, generate. by definition inequalities, which are not based on real differences in qualifications or competencies, but on attributions (cf. Thurow, 1975; Willis, 1981).

Other scholars argue that the present tendency to create education and training markets or implement market mechanisms cannot be perceived as really introducing markets (in the neo-classical sense). This is primarily because governments often remain highly regulative in this area, controlling 'such matters as entry by new providers, investment, the quality of the service and price' (Levacic, 1995). According to Levacic, a distinctive character of a quasi-market for a public service is 'the separation of purchaser from provider and an element of user choice between providers'. This thinking about quasi-markets stems mainly from research into marketisation and decentralisation tendencies in public (compulsory) education. Nevertheless, the provisional conclusion of this line of research is that the introduction of quasi-markets will lead to (an increase of) inequality (cf. Echols & Willms, 1995; Hodkinson & Sparkes, 1995; Lauder & Hughes, 1999; Whitty & Power, 1997).

Notwithstanding the criticism with regard to markets, training policies in various (European) countries appear to be increasingly based on the introduction of market principles. The extent to which real marketisation or privatisation is introduced differs between countries and also between different parts of the training market (within countries). In this respect one could speak of a continuum running from decentralisation at one end to full privatisation at the other end. Before launching into the various arguments for private or public provision of training and developments in this area within Europe, the three concepts of privatisation, marketisation and decentralisation will be clarified in relation to corporatisation.

1.2.2 Concepts and definitions

The concept of corporatisation is, in relation to education and training, a non-existent concept. However, one could say that it refers to an approach of public VET-providers attempting to make them more market-oriented, applying corporate strategies and methods in 'selling' their main product (vocational education and training) and in handling their environment with its complexities, uncertainties and contradictions. Corporatisation according to this 'definition' is related to at least three concepts that appear to be crucial in the debates on both initial and continuing training at this moment:

(a) privatisation;

(b) marketisation;

(c) decentralisation.

Like corporatisation, none of these concepts is fully unambiguous (Amelsvoort c.s., 1996; Brandsma c.s., 1995b; Brandsma c.s., 1996; Scheerens, 1989). This section attempts to clarify the concepts and the way in which they are related.

Though *privatisation* is often associated with the sale of state property like nationalised companies (cf. Boorsma, 1989), some authors argue that this understanding is too narrow where privatisation of public training providers is concerned. Privatisation in vocational

education and training (both initial and continuing) can – in their opinion – take different forms that appear to establish a continuum (Boorsma, 1989; Scheerens, 1989):

(a) full privatisation, where a public service or a public VET-provider is completely taken over by the private sector;

(b) increasing independence/autonomy where the production process as such is privatised but public authorities remain involved in decision making, funding and (quality) control;

(c) outsourcing parts of the primary production process or supporting services to private organisations (like cleaning or the salary administration);

(d) privatisation of partial aspects of an organisation's functioning (as a specific form of outsourcing), such as the compilation of examinations or specialised activities (e.g. providing training or services to third parties under contract conditions, as is the case for the Dutch Regional Training Centres and the Further Education Colleges in the UK).

It can be argued that this last form of privatisation (partial privatisation as a specific form of outsourcing) apart from increasing independence/autonomy cannot be perceived as 'real privatisation', but as decentralisation. Nevertheless, the presented continuum of privatisation does reflect 'privatisation practices' in education and training in various European countries, with full privatisation being one of the forms that occurs least frequently.

Marketisation can be perceived as introducing or increasing market principles in the training system, either through enhancing competition between public providers or through enhancing competition between public and private providers. As indicated earlier, continuing vocational training is increasingly perceived as a market, though the extent to which market principles are really implemented differs between countries. Based on the (then) existing Europe of twelve Member States, Brandsma et al. (1995c) made the following distinction between different types of systems of continuing training:

(a) systems that are primarily 'government led' (e.g.: France, Denmark);

(b) systems that are primarily 'social partner led' (e.g.: Spain);

(c) systems that are a mixture of government and social partner leadership (e.g.: Germany, the Netherlands);

(d) systems that are organised according to market principles (e.g.: the United Kingdom)[2];

(e) systems that are characterised by regional influences and variety (e.g.: Italy).

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[2] Though the UK is often perceived as the strongest example of 'marketisation' of the vocational education and training system, some people would argue that in principle it mainly is an 'employer led' system (cf. Keep, 1997).

None of these 'systems' excludes market influences. The typology is intended to identify the major driving forces behind continuing vocational training at a certain moment. Of course systems develop over time, outdating a typology such as the one provided here. Nevertheless, such a typology does show that the extent to which marketisation appears will differ between countries.

Despite this, there seems to be a more or less general tendency towards more market in the systems of continuing vocational training. This seems to stem from the expected benefits of marketisation. It is expected that the introduction of market principles will result in greater responsiveness on the part of training providers towards various clients or client groups. This will then increase the quality of the training that is provided, the efficiency and flexibility of the delivery of the training and, in consequence, will contribute to increased cost-effectiveness of continuing training. To a large extent, these expectations are also underpinning decentralisation policies in education and training and are not restricted to either continuing training or vocational training in general. Referring to the implementation of school choice in general education and public choice theory (cf. Boyd & Crowson, 1985); Echols and Willms (1995) state:

'The supporters of increased choice believe that parents can become knowledgeable 'consumers' through the use of performance indicators, the publication of school brochures, and reports by the popular media. And if school staff are given greater power to manage their affairs, they will be better able to improve the quality of their schools and become more responsive to parents' concerns.'

With this, Echols and Willms (1995) clearly indicate the link between market mechanisms or marketisation and decentralisation.

With regard to *decentralisation* a distinction can be made between functional decentralisation and territorial decentralisation (Bray, 1994). Functional decentralisation means the dispersal of control over particular activities, but does not necessarily imply that control is transferred to lower administrative levels or to the VET-providers themselves. Functional decentralisation could, for example, also mean that a central Department or Ministry of Education gives particular tasks and responsibilities to semi-independent governmental bodies, e.g. examinations, developing and controlling the national curriculum. There are various examples of this type of functional decentralisation throughout Europe, like the Further Education Funding Council in the UK, which is responsible for the funding of the FE-colleges. Another example is the Organisation for the Employment of the Labour Force in Greece, responsible for the planning, implementation and monitoring of continuing vocational training as provided by the (private and public) Continuous Vocational Colleges.

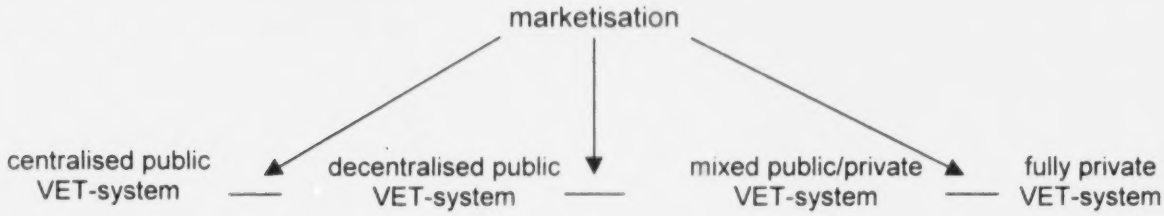
In contrast to this, territorial decentralisation does imply change in the dispersion of control between different administrative levels. This will either be through means of delegation (giving lower administrative levels of providers delegated decision making powers) or by

actually transferring decision making powers to, for instance, providers, providing the ability to take decisions without the consent of another (higher) authority.

1.2.3 Privatisation, marketisation and decentralisation

Taking into account the previously provided definitions of the concepts of decentralisation and privatisation, one could speak about a continuum ranging from a centralised public training system towards a fully privatised training system, with the amount of marketisation determining a system's position on the continuum, as depicted in Figure 3.

Figure 3 Relations between the concepts of marketisation, privatisation and decentralisation



Though marketisation and decentralisation, as described above, do not by definition mean a shift from public to private provision of training, these tendencies do increasingly set the scene for the debate about this issue. Decentralisation policies, for instance, are not based solely on the belief that problems can best be solved closest to where they occur and that greater autonomy and responsibility of educational institutions for their own functioning will enhance both cost-effectiveness and quality. They are also based on the assumption of a resulting differentiation between educational institutions. More autonomy will stimulate educational institutions to start profiling themselves – within the boundaries set by national regulations – in order to compete for students and trainees. An example is the introduction of 'parental choice' or 'public choice' in the UK, USA, New Zealand and Australia, where parents can request admission to a school other than the one open under former district rules, which more or less obliged enrolment in a particular school based on proximity. Given that (public) funding is based mainly on enrolment numbers, this can cause less popular schools financial problems, while the more popular schools can afford to be selective and 'cream off' the more academically gifted and better achieving students.

1.3 Public or private training provision? Rationales and possible (dis)advantages

1.3.1 Arguments pro and con private training provision

Advocates of either privatisation or private training provision, marketisation or decentralisation partly share the same arguments for their point of view. Alleged advantages of private provision, or at least increased market mechanisms, are (cf. Van Amelsvoort et al., 1996; Brandsma, 1994a; Echols & Willms, 1995; Hodkinson & Sparkes, 1995:

(a) greater responsiveness of training providers. The fact that training providers have to operate in the market will result in increased attempts to match supply with demand. It will also increase the flexibility of the training providers, given that customers' preferences and demands will change over time and, in order to remain in a competitive and successful position in the market, providers will have to adapt the training offer to the demands of the market;

(b) increased quality. This argument is more or less directly related to the previous one. The assumption is that operating in the market means that a 'customer driven' training provision will develop, which will not only contribute to the responsiveness and flexibility of the providers but also to the quality of their offer. Customers will want to know about the quality of the offer and quality differences between competing providers before purchasing their training, and unsatisfied customers will turn away from the providers not delivering up to their standards. Next to price and convenience of the delivery, quality will become an aspect of the competition between providers;

(c) increased diversity. Providers will try to seek their particular niche in the market in order to be able to compete in a profitable way. This will contribute to diversity of offers and, with that, increased choice for consumers;

(d) greater accountability. Given the need for competition, in which quality will play an increasing role, training providers have to pay increasing attention to their accountability in order to satisfy and convince customers. In this way, accountability indirectly contributes towards quality and increased cost-effectiveness.

These arguments in favour of private provision or the introduction of market mechanisms are mainly based on the neo-classical perception of markets. Opponents, therefore, point out that the pro's are based too much on the assumptions of a transparent market with perfect information that is accessible for all. This, it is stated, does not appear to hold. Access to, and understanding of, available information appears to be linked to consumer attributes such as socio-economic position and level of educational attainment, with the better educated consumers often having easier access to relevant information. In this context Gerwitz, Bowe and Ball (1994) conclude that 'the market is a middle class mode of social engagement; parental choice of schools is class- and race-informed. Schools are increasingly oriented towards meeting the perceived demands of middle-class parents.

The authors refer to another counter argument with regard to private provision or marketisation. Even though this would lead to increased responsiveness of training providers, the question is increased responsiveness towards what or whom? Different parties on the demand side of the market do not necessarily have an equivalent or equal position. It might be that the increase of responsiveness is limited to those that can 'voice' their demand, which, in the context of continuing training, are the parties that invest relatively more in training (e.g.: larger enterprises, better educated workers, etc.).

In addition to this there is not yet much empirical evidence that marketisation or increased competition does improve quality or cost-effectiveness. In particular the improvement of cost-effectiveness is scrutinised. There are examples of FE-colleges in the UK, but also regional training centres in the Netherlands actually running into financial troubles. Some of these institutions would argue that this is due to an inadequate calculation of their (lump-sum) budget for the provision of initial VET. However, in some cases it is clear that the problems stem from too risky operations in the market, without sufficient (management) capacity to handle such operations (cf. Attwell & Hughes, 1998; Inspectorate, 1999).

Other arguments against (too much) market mechanisms are:

(a) increasing selectivity of training providers. The fact that training providers have to 'earn their income' in the market, might, on the one hand, result in focussing on the most profitable parts of the market, disregarding the special needs of particular, smaller and less powerful groups of customers. On the other hand, it might result in increased selectivity at the stage of enrolment, certainly in cases where funding is partly based on results. European research with regard to labour market training for unemployed persons has shown that training providers often 'select' on the basis of their own, informal judgement of the candidate's capacities to finish the training successfully, certainly if over-subscription to a course is at stake (Brandsma et al., 1999);

(b) increasing inequity. The fact that education and training providers have the chance to be more selective and adapt their offer to the main stream, together with the differential position of different groups of customers with regard to the accessibility of relevant information, will lead to greater inequity (Whitty & Power, 1997). This argument could, of course, be countered at the same time, since public provision has not solved this problem over the last decades either. Further, from various studies it becomes quite apparent that those with better initial educational attainment also have a substantially higher chance of participating in continuing training (cf. Tuijnman, 1989);

(c) variations in quality and effectiveness. The advocates of marketisation allege that, due to increased competition, customers will be able to choose on the basis of, among other things, quality. Apart from the problematic issue of the measurement of quality and the adequacy of the indicators used to show quality (the adequacy of raw performance scores is one of the particular issues in the debate on public choice in education), this point of view neglects the fact that quality and effectiveness can vary

over time. Variation can be influenced by various exogenous factors, which cannot be controlled by the training providers. From Norwegian studies into the effectiveness of labour market schemes, for instance, it becomes clear that once effective does not mean always effective. There are major differences in effects, not only between programmes, but also for one given programme if measured at different points in time. The effectiveness of such schemes seems to depend more on the general labour market situation than on particular characteristics of the programme and/or the provider (Pedersen & Møller, 1998).

1.3.2 Markets, market failure and training as an investment

In the discussion about public versus private provision, three aspects play an important role: funding, ownership and the perception of training as a 'good'. These are aspects which are very much interrelated. Concerning the last, a distinction can be made between training as an 'investment' and training as 'consumption' (Ritzen, 1991). Training is considered as consumption if it is undertaken for leisure purposes and the content of the training does not relate to another (economic) aim, such as gaining a higher diploma or increasing work-related knowledge and skills. Many, but certainly economists, would argue in this case that both funding and provision of training should be completely a private matter (cf. Brandsma, 1994a; Ritzen, 1989).

Where training can be considered an investment, the issue of public versus private provision remains. Though this focuses on funding, it is not easy to disentangle from provision. On the one hand, training can be perceived as a 'merit good' (like compulsory education, police and health care), with the public or societal benefits of investment being of such magnitude that it justifies (if not necessitates) public interference. On the other hand, it is increasingly advocated that those who benefit from the returns on the investment should pay for it. This for instance would mean that enterprises have to pay for the training of their employees if they reap the fruits of it, while the price should be shared if both benefit from the investment. In its apparent simplicity, this approach does seem attractive. However, determining the returns of training is less easy than is often presumed, certainly if it is necessary to determine which parties benefit from what share of the returns. Research in this area that could give at least a preliminary answer to such questions is still largely lacking (cf. Brandsma, 1998a; Tessaring, 1997).

With regard to the issue of public versus private provision, sometimes a distinction is made between different parts or segments of continuing training. German employers' organisations, for instance, strongly advocate that training for the employed, certainly enterprise-based training, should be left to the employers or the social partners, without any public intervention. At the same time the training of the unemployed is considered to be the responsibility of the public domain. This does not only refer to who pays for what and who is benefiting, but also to issues of ownership and discretionary powers. In-company training, in this perspective, should be left to the 'market' with employers and employees negotiating about which training should be provided to whom, thus settling the

optimal equilibrium between supply and demand. There are, however, indications that there are market imperfections (monopolisation, restriction of competition, etc.); i.e. that there is under-investment in training (less investment than required to reach the market equilibrium). Indicators often mentioned for such under-investment are (De Koning et al., 1991; Ritzen, 1991):

(a) participation in training is concentrated among younger employees;

(b) participation in training is concentrated among higher-educated employees;

(c) female employees (certainly in some sectors of economic activity) participate relatively less in training;

(d) investments in training increase with the size of the enterprise.

Possible causes for under-investment are (Ritzen & Stern, 1991):

(a) uncertainty about the returns of the investment. In the case of individuals, the return on investment is not always detailed beforehand and is often not clear. The same holds for the enterprises, which might be faced with 'poaching', though it is presumed that larger enterprises will be better positioned to spread the risks of any investment;

(b) complementarity of general and specific training. Human capital theorists presume that employees have to pay for the general training they receive, since they will be able to use what they have learned in locations other than their current employment. Employers, on the other hand, have to pay for specific training, which is highly tailored to their own business. However, practice differs from this hypothesis. In reality it is not always easy to distinguish between general and specific training. Moreover, in practice it appears that a substantial part of the employers' training investment is devoted to general training (Bishop, 1988; NEWSKILLS, 1999). It also appears that general and specific training is complementary in the sense that the effects of specific training increase if it is combined with general training and vice versa. The assumption is that employees, therefore, will be less willing to invest in their own general training (Lillard & Tan, 1986);

(c) restricted information. Information with regard to both the training market and possible returns on investment in training is not readily available. For both employers and employees this might be a reason to refrain from investing, certainly if the costs of obtaining such information are considered to be too high.

Some would argue that these market failures are a specific reason for public intervention, while others indicate that part of such market failure is, in the end, solved by the market itself. The fact, for instance, that employees invest less in general training than would be expected on the basis of the assumptions of the neo-classical market model and the human capital theory can be considered as a market failure. However, since employers 'compensate' for this by investing substantially in the general training of their employees, even though employees can market the acquired knowledge and skills with other employers, caters for this problem (NEWSKILLS, 1999).

The issue of public and private training provision is not a simple list of pro's and con's, which are decisive in reaching one conclusion or the other. Though there are differences between European countries with regard to the major forces behind the development of training, as argued earlier, full marketisation of training systems relying completely on the regulatory functions of market mechanisms does not seem to be at stake (yet). Instead, most European countries show complicated mixtures of training delivery by public and private providers, frompublic and private funding, often with different steering mechanisms installed for different segments of the training market.

Overall, the training of the unemployed appears to elicit substantial public involvement, at least from a funding point of view. In most countries, a substantial part of the budget for this training comes form the government, though this does not exclude private involvement, be it through national taxation legislation or through collective agreements at national or branch level (e.g.: the Netherlands). In France, for instance, a proportion of the obligatory percentage of the gross wage bill employers have to pay to collective funds, is intended for the training of young job seekers, unemployed adults or adults with the risk of becoming redundant. From this are funded various labour market schemes that can include on-the-job training or off-the-job training, where the latter can be provided either by private or public providers. At the same time, substantial public funding is invested in training of (unemployed) adults, e.g. through the contract between the state and the 'national association for the training of adults' (AFPA). In the UK, on the other hand, training for the unemployed appears to be mainly publicly funded, with funds either coming from the national government or from European Funds. The provision of training, however, is strongly decentralised if not marketised. Local Training and Enterprise Councils, which can be perceived as mainly employer-led intermediate organisations, play an important role in the provision of this training. Based on the target- and output-related contracts they sign with the government, which ultimately determine their funding, it is their task to ensure the provision of the training. This is done through tight tendering procedures, in which both private and public providers (e.g. Further Education Colleges) have to compete for contracts. The UK is not the sole country where such tendering procedures have been introduced on behalf of the provision of training for the unemployed; other examples are the Netherlands, Norway and Sweden.

In general, training of employees appears to be mainly a private issue, not only from the point of view of funding, but also from the point of view of decision making powers. Decisions about training participation are mainly made at enterprise level. Nevertheless, there are various examples of public – or at least collective – involvement in this area as well. On the one hand, adults (being employed and unemployed) can enrol in free and publicly funded courses (as in the case in Denmark) or benefit from financial governmental support in the forms of grants or loans (e.g.: the Individual Training Loans in the UK). At the same time, various countries have legislation or other regulations that entitle individual workers (or even the unemployed, as is the case in Denmark) to take educational leave for a longer period. The funding mechanisms underpinning such regulations differ and can either be based on some form of taxation legislation (France), collective agreements at national level (Spain) or a combination of private and public funding (Denmark). The

training undertaken can be provided by private as well as public organisations. Alternatively, public or collective involvement in this area can influence training of employees in enterprises as well. The French legislation regarding continuing training (which goes back to 1971), sets aside a substantial proportion of the percentage of the total wage bill for the training of the employed, in particular for their training leave. The collective agreement between the national government and the social partners in Spain is based on a more or less similar principle. The private funding derived from businesses is channelled through one national organisation (FORCEM), where enterprises can apply for financial support submitting either an enterprise-based training plan, a sector training plan (in which various enterprises cooperate) or plans for educational leave of individual workers. In other countries similar funding structures exist as well, though these are more based on collective agreements between social partners at the branch or sector level (e.g.: Belgium, the Netherlands). The training that is provided as a consequence of such regulations can be delivered either by private or public organisations.

Though countries differ in the extent to which their continuing training system is marketised, overall there appears to be a tendency to implement market mechanisms, with both public and private providers operating in the same market segments. With this, the boundaries between public and private providers become blurred, though this is more the case in some European countries than in others. In some countries there is still a rather clear demarcation between public providers, responsible especially for initial vocational education and training, and private providers, covering mainly the area of continuing training. In other countries, however, the public providers responsible for initial education and training, and/or training for the unemployed, now compete with private providers on similar terms in order to gain a position in the profitable continuing vocational training market. In doing so, these public providers partly turn into corporate organisations, notwithstanding their public responsibilities. At the same time, this tendency towards marketisation can result in private providers being mainly dependent on public funding. In this sense, there appears to be a more or less Europe-wide shift towards a stronger influence of the market, though many countries install regulatory mechanisms (be it centralised or decentralised) that often inhibit real marketisation in the sense of perfect competition. This is not least due to the political implications related to training, i.e. ensuring both competitiveness of enterprises as well as ensuring employability of the work force while protecting and enhancing social coherence, as exemplified by the European Union´s socio-economic policies.

1.4 Concluding remarks

The reformulation of the role of the state within VET can be seen as the third stage in a historical development. The first stage was the period when VET was predominantly provided unstructured and unregulated, with the state playing only an inferior role. In the second stage, with the rise of the welfare state in the twentieth century, the state started to finance and in some cases also provide VET and thereby developed supply-driven, state-dominated VET systems. The third and present stage now sees the state limiting its role and thus developing more market-driven VET systems.

However, analyses of the public provision of initial vocational education and training indicate that the majority of countries within the European Union are 'decentralising administration and funding to regional, local, institutional and social partner levels, but without marked enthusiasm for creating fully market-based systems and with concomitant increases in central government framework-setting and policy-steerage. The overarching trend for IVT, which combines continued government commitment with increasingly constrained budgets, is the search for the elusive multiple goals of efficiency, quality and equity (Green et al., 1999, p. 9).'

The basis for this section, and more generally the report, has been the transformation of public systems providing vocational education and training. The justification for the new developments can be found in theories or concepts related to the public sector, i.e. new public management thinking. This approach emphasises the introduction of market mechanisms and corporate management thinking into the public sector and particularly into public organisations, which will have its most visible interpretation in Part 3, the Swedish case study. It does also, however, emphasise decentralisation, outsourcing and separation of public funding from public provision of VET; elements which have also played an active role in the Dutch case study as presented in Part 2.

However, shifting administrative rationales behind public sector spending and administration are the results of political processes, economic pressures and management rationales. Consequently, while this part has focused on the theoretical rationales, the following two parts will focus on the rationales as they have developed during a long process of transformation of public training provision systems.

Part 2 The process of establishing regional training centres in the Netherlands

This section describes the process of the mergers between educational institutions over the last 15 years that led to the establishment of the 'regional training centres' (ROCs according to its Dutch abbreviation) in the Netherlands. The re-orientation of the efficient and effective use of educational and training structures, the felt need to strengthen the relation between vocational education and the labour market and to strengthen the quality of (vocational) education were major incentives for the reform. However, the reform process cannot be seen in isolation from the more general reformulation of the role of public government in (vocational) education and training vis-à-vis the role of the social partners.

Section 2.1 will therefore describe the economic situation and labour market policies in the Netherlands during the last decades. Section 2.2 gives an overview of the reform process resulting in the establishment of the ROCs, while section 2.3 outlines the implementation of the new regulations. In section 2.4 the changing institutional context of the ROCs that occurred after the implementation of the new regulations will be described. Section 2.5 deals with the extent to which some particular intended affects have been realised, while section 2.6 concerns major conclusions with regard to the impact of the reform process.

2.1 The economic situation and labour market policies in the Netherlands in recent years

Notwithstanding the economic recession with which many countries have been confronted during the early 1990s, the Dutch economy is presently performing relatively well. From 1996 onwards, economic growth in the Netherlands is higher than the average economic growth on a European level.

During the 1990s the public deficit steadily increased until it reached its peak in 1995 (4.0% of the GDP), after which it rapidly declined (from 2.0% of GDP in 1996 to 0.7% in 1998). Likewise, albeit a little later, the unemployment rate reached its peak in 1995 with 7% but was in early 1999 down to 4.7% while at the same time the total labour force has increased from 6 063 millions in 1990 to 6 833 millions in 1997. However, as Table 1 below indicates, the unemployment figures are somewhat flattered due to the drastic rise in the number of incapacitated workers in the early 1990s. A change in legislation has succeeded in lowering the numbers from the peak of 1990, with almost 1 million incapacitated workers, although the figures are still substantial and have started to slowly increase again.

Table 1 Number of incapacitated people with disability insurance as a percentage of the total labour force

1991	6 189	903	14.6
1994	6 466	894	13.8
1998*	6 937	887	12.8

* estimate

Source: LISV/Ministry of Social Affairs.

2.1.1 The Polder model

The present labour market model in the Netherlands is known throughout Europe as the 'Polder model' or the Dutch model[3]. This model is perceived as an example of effective labour market policy contributing towards economic growth and decline in unemployment. The pillars on which the Polder model is based are:

(a) a strong dialogue between government and social partners resulting in clear agreements between parties especially with regard to wage restraint;

(b) control of public expenditure with the result of reducing the public deficit;

(c) a reduction of the collective regular expenses (which have gone down with 5% over the last five years);

(d) the strengthening of market mechanisms.

The model is not, however, that new in its origin. For instance, some of the institutionalised, tripartite consulting structures, such as The Foundation for Labour and the Socio-economic Council, date back to the 1950s. These consulting and advisory committees are the government's main advisory committee in the area of socio-economic policy, including education and labour market. Both the Council and its committees are constituted as tripartite committees (with an equal number of representatives from both the employers organisations and the trade unions, and another third so-called independent 'crown members' appointed by the government/the crown). The extent of a certain basic consensus between the social partners, as is now the case under the Polder model, has varied.

The basis for the consensus goes back about 15-20 years. In November 1982 the Wassenaar agreement was signed between the social partners. Trade unions refrained from requesting automatic wage indexation, while employers' organisations gave their commitment to place the issue of reducing working hours high on the agenda for collective negotiations. Further, a reduction in collective regular expenses was agreed; between

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[3] Sometimes this model is also named the Dutch model or the Rhineland model (cf. Hoogervorst, 1997). Another name sometimes used is the 'consensus model', which however more refers to the situation during the 1980s, the period during which the model now known as Polder model evolved.

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1983 and the mid-1990s total expenditure has decreased with 20%. In addition to this, the government decided in 1983 to peg the level of the guilder to the German Mark.

Bomhoff (1998) argues that the combination of wage restraint, together with the fact that the fixed exchange rate with the German Mark in time made Dutch products cheaper compared to German products, have been the cornerstones of the success of the Polder model 15 years later. This is even more the case with the continuation of the policy of wage restraint up to the mid-1990s. Hoogervorst (1997) however, indicates that the Wassenaar agreement indirectly also implied that the social partners renounced their centralised steering role in wage determination. According to Hoogervorst, this results in more market effects at a less centralised level. Together with a strong growth in labour supply, this almost naturally led to wage restraint. In his opinion, market forces have, therefore, been as important for wage restraint as the Dutch consensus model.

Overall both Bomhoff (1998) and Hoogervorst (1997) agree that the basis for the success of the Polder model was laid out in the Dutch consensus model since the early 1980s. This included the liberalisation of the economy, the decentralisation of policy development and an increasing emphasis on the individual responsibilities of both citizens and enterprises as well as on market principles and competition.

2.1.2 Flexibility of the labour market

Consequently, the Dutch labour market is characterised by a new type of flexibility, which was not known in the 1980s. This is reflected by the rather large share that temping agencies have in mediating between job seekers and job openings (large at least in comparison with other European countries). This was a position they could build up given the legal and socio-economic acceptance of the phenomenon of temping agencies as well as the legislation around temporary contracts.

Furthermore, there is a certain change in culture among the different parties operating in the labour market, in particular employees and trade unions. Trade unions have accepted that a 'job for life' is no longer realistic and that individual employees bear individual responsibility for keeping up-to-date their own skills and employability. Still, the issue of whom is going to pay for which type of training or skill development remains a point for debate and negotiations. Moreover, the inclusion of paragraphs on training and training leave (including training of unemployed persons) in collective agreements already has become a tradition from the late 1980s (Brandsma, Van Dam & De Grip, 1992). At the same time it is quite clear that among employees (certainly the younger age groups and/or better educated) a regular change of job is perceived as normal.

Though the labour market in this respect is characterised by flexibility, there is new legislation, which from the employers' view inhibits this flexibility. Recently a new law has been installed (the so-called Flexwet), which aims at a better protection of so-called 'flex-workers', limiting the number of years someone can be employed on a temporary contract and the number of times such contracts may be renewed. However, contract renewal can

still be unlimited if there is a sufficiently long enough period of unemployment in between the contracts. Whether the law will actually serve its purpose is too early to say. Cynics indicate that it might lead to the situation in which less 'employable' workers will be fired just before they should be given a steady contract and kept unemployed long enough to start the cycle anew.

2.1.3 Decentralisation

The Government and the social partners' increasing emphasis on decentralisation and market principles over the last years is visible in at least two areas. First there is the way in which the employment service is organised and operated. Second is the decentralisation and privatisation of the institutions involved in the operation of social security.

The reorganisation of the employment service started in the early 1990s. It was not only a reorganisation in the structural sense, but also, to a certain degree, a decentralisation of the delivery of active labour market policies. Though still funded by the Ministry of Social Affairs and Labour, the employment service in 1991 became an autonomous body with 28 regions each with their tripartite regional board and agency. Severe criticism from the social partners of the performance of the employment service led to new legislation in 1997.

The 1997 reform led to the following major changes:

(a) the number of administrative regions was reduced from 28 to 18 and part of the autonomy was re-centralised by the establishment of a national board of directors. This board exercises power over budgets, reallocation of money, training measures, etc.;

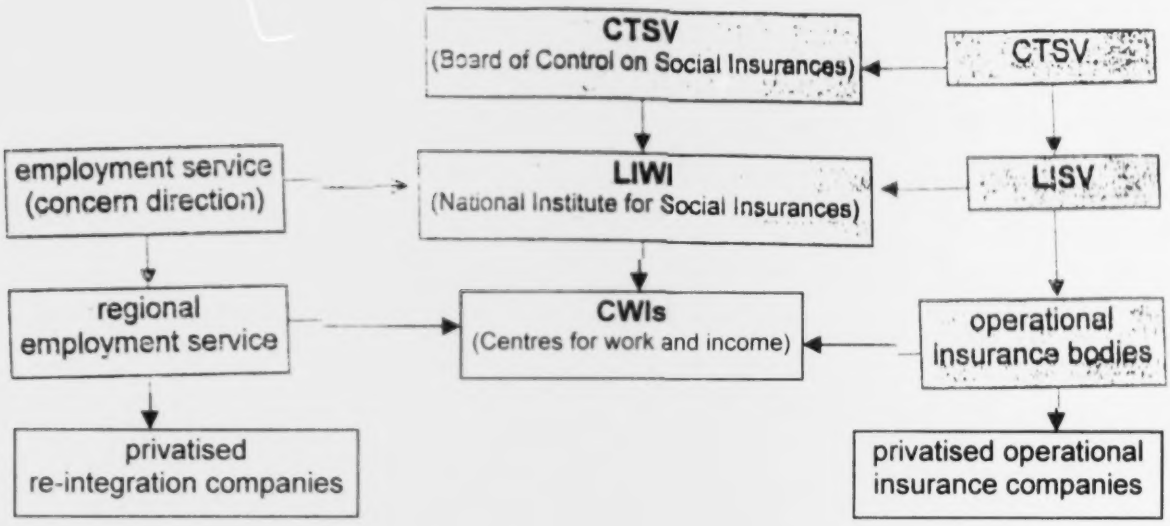
(b) the tripartite structure has been abolished and consists now of social partners' representatives and crown members appointed by, but independent from, the government;

(c) part of the funding for the employment service had to be earned at the market, i.e. some funding previously allocated directly to the employment service was now allocated to the municipalities which in turn would buy services from the employment service;

(d) an increased emphasis on open tendering of training for the unemployed, i.e. the employment service-owned training institutions are now facing competition. A few of the centres for vocational training have opted for a merger with a ROC, while the others try to find their niche in the market. Even in the latter case, however, close relations are often developed with the ROCs.

Consequently, the influence of the social partners on policy development in the employment service has been reduced to the benefit of the independent members, i.e. the 'crown' members appointed by the government (cf. Hoogervorst, 1998; Bomhoff, 1997). Further, the organisation has become more independent and capable of operating in the

Figure 4 New structures for social insurance and employment service



2.1.4 Change in the emphasis for labour market training

Apart from the specific training provisions falling under the Ministry of Social Welfare and Labour, specific provisions for training of the (long-term) unemployed were for a long time neglected. During the late 1970s and the early 1980s, all attention went to the unemployed school leavers that had dropped out of school as well as those young people that finished school but could not find a job. From 1983-84 this changed, and, due to the rapid changes in the occupational and employment structures and the increasing group of long-term unemployed, more attention was given to the adult unemployed. This resulted in a more active policy with regard to vocational education and training of adults, with new training initiatives being launched while subsidy schemes and general agreements came into being, enhancing the training of the long-term unemployed as well.

2.1.5 The supply side training market for unemployed

At present, various providers operate in the market of labour market training. Notwithstanding the earlier mentioned tendency towards out-sourcing within the employment agency, most of the vocational training centres still exist. In addition to these there are the centres for vocational orientation and preparation (formerly municipal institutions, but now mainly funded by the employment agency and focusing on preparing the least qualified for further training or work) and the Training Centres for Women, which get most of their funding from the employment service as well (Brandsma c.s., 1997). In addition there is an abundance of 'private' providers, which can either be the contract departments of the ROCs or commercial private providers. The estimate is that about one-third of the total employment service training budget goes to their own training centres (the CV in Table 2) and two-thirds to other providers, but there are no accurate figures on the flow of money. The figures that are available concern the number of participants. Table 2 provides an overview up to 1995.

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market, while at the same time a certain re-centralisation took place. Attempts are made to out-source particular tasks like training, for example by purchasing training through open tendering procedures.

The social security system is another area which has undergone a similar decentralisation and privatisation. Until the early 1990s provision of social benefits was divided between sector insurance boards and the local governments. The sector organisations were responsible for the unemployment benefit and the benefit for those no longer able to work, while the local governments were responsible for the social benefits for those who could not claim unemployment benefit. The sector insurance boards were mainly steered by the social partners in the particular sector, though overall the Ministry of Social Affairs and Employment set regulations. In the early 1990s the policy with regard to the sector insurance bodies changed. Major reasons for this were the dramatic increase in the number of 'incapacitated workers'[4] and the fact that a parliamentary investigation showed that the system was abused to get people into disablement insurance instead of unemployment benefit. Consequently, the social security service was reorganised.

The idea of integrating the provision of social security and employment and labour market service emerged and was specified in the mid-1998 as 'centres for work and income' (CWIs). The plans imply that the CWIs will take over the majority of the employment service and some of the tasks of the operational insurance bodies and local administration, thus integrating all services in the area of work and income so that clients only have to contact one office.

In addition to the CWIs, new privatised reintegration companies are foreseen, which will have to operate and compete in the market together with already existing private employment and reintegration services. The new reintegration companies will also include the employment service-owned centres for vocational training. Though the cabinet agreement emphasised close cooperation between the centres for vocational training and the ROCs, the government opted for the inclusion of these Centres into the reintegration companies. This should provide the new companies with a good starting position in the market.

The major aims of these plans are to increase the efficiency and effectiveness of the operation of both the employment services and the social services, to provide clients with 'one counter' and to increase and improve the reactivation of those looking for a job. Figure 4 provides an overview of the changes that will take place if the present plans are implemented, with the shaded blocks representing the 'old' institutions and the non-shaded blocks representing the newly emerging institutions if plans are realised.

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[4] Incapacitated workers are those who neither have worked and cannot work due to disability (physical, mental) or those who have worked but are not longer able to do so, due to accidents (at work or else), a specific illness or socio-psychological causes (e.g. stress).

Table 2 Participants in labour market oriented training

	1980	1985	1990	1993	1994	1995
CBB*	-	3 000	9 970	9 000	11 000	8 000
CV	4 173	10 455	26 654	25 000	24 000	26 000
KRS	13 335	25 701	70 956	72 000	47 000	37 000

Note: CBB = Centres for vocational orientation and preparation; CV = Centres for vocational training; KRS = General training arrangement.

* 1980 data for the centres for vocational orientation and preparation are not available, since these centres then were still municipal institutions.

Source: Statistics Netherlands, Educational Statistics 1997.

With a short overview going back to the mid 1980s the following measures can be listed:

(a) general training arrangement (KRS): a subsidy arrangement out of which the training of long-term unemployed within enterprises and the (re)training of employees threatened with unemployment is financed;

(b) contribution scheme for apprenticeships (BVL): an arrangement through which practical training within initial and continuing apprenticeship is subsidised;

(c) contribution scheme for sectoral training (BBS): this arrangement, which is supplementary to the former two, aims at stimulation of training at the sector level;

(d) compensation scheme for training of unemployed (BBSW); this scheme specifically aims at training of unemployed (Ant, Kintzelé, Haecht & Walther, 1996, p. 59).

2.1.6 Summarising conclusions

The Polder model has evolved over the last 15 years. A strong dialogue between government and the social partners, together with a control and reduction of the (collective) public expenditures are its basic principles. Average annual economic growth has exceeded 3% since the beginning of 1996 while at the same time unemployment rates have dropped substantially, though the numbers of (partly) incapacitated workers have increased during the last years, notwithstanding changing policies aimed at reducing these numbers.

During the early 1990s the tendency towards decentralisation of the operation of the labour market and social security agencies has increased and new structures for their operation have been implemented. Presently there appears to be a tendency towards 're-centralisation', which, however, does not mean that governmental interventions will increase. Instead, it is based on the establishment of new bodies on a national level that have responsibility for the overall operations and are (quasi-) independent from the public authorities. To a certain extent one can speak of a 'withdrawal' of government involvement.

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2.2 The reform process leading to the regional training centres (ROCs)

The establishment of the regional training centres (ROCs) is not only a matter of labour market policy but reflects also educational reforms and new ideas on teaching and learning. At the same time, it reflects the general tendency in policy making towards decentralisation, greater autonomy and independence of institutions, and less government regulations and involvement. The previous section has already shown that such decentralisation tendencies are not restricted to the educational sector, but affect labour market institutions generally.

In order to understand the establishment of the ROCs, it is necessary briefly to sketch the development of the (vocational) education and training infrastructure since the early 1980s, providing the context in which the ROCs were finally formed. Therefore this section first describes the reforms that took place in the 1980s (2.3.1) and, secondly, the overall objectives of (and objections to) the changing policy in vocational education and training (2.3.2).

2.2.1 The reform of the 1980s

Until about 1980, Dutch vocational education was based on three pillars: junior vocational education (as part of compulsory education covering the age group of 12 to 16 years old),;senior vocational education; and apprenticeship training. During the recession of the late 1970s and the early 1980s, it became clear that there was a lack of sufficiently (vocational) qualified personnel. This was presumed to be partly due to the lack of interest of young people to enter vocational education. Both among young people and their parents, the preference for enrolling in general education with the perspective of going into tertiary education was dominant. Junior vocational education was, in this respect, more and more considered as the last option for the underachievers, not giving any possibility for entering tertiary education in the end. However, paradoxically enough, it was doubted whether the vocational education system would be able to absorb larger number of students if there were to be a substantial increase in the number of interested students. As a result of the economic recession, the capacity of apprenticeship training schemes was declining, given that enterprises tried to cut down their costs and were less willing to take on and train apprentices.

At the same time, apprenticeship training schemes were an important route for pupils leaving junior vocational education (either with or without a diploma) and for pupils leaving lower secondary general education without a diploma. Given this situation a twofold educational policy was developed aiming at increasing the number of training places within the apprenticeship scheme. Furthermore, it aimed to establish a school-based vocational scheme leading to similar qualifications as primary apprenticeship training.

Both the establishment of short term vocational courses (for which separate institutions had been created) and attempts to increase the number of available training places in the apprenticeship schemes were successful, but they also had their counterpart. Due to demographic developments, the number of students in the age categories of 16 to 20 was falling and different educational provisions had to compete with each other in order to keep enrolment numbers as stable as possible and in order to survive. At the same time, the inefficient overlap between different types of vocational educational providers and the lack of transparency of the vocational education and training market were scrutinised. This led the national government into proposing changes in the existing legislation covering senior vocational education institutions and institutions providing short term vocational courses. The amended legislation, for which preparation had already started in 1987, formed the start of a first round of mergers, known as the 'operation sectoralisation and innovation in senior vocational education' (SVM-operation after its Dutch abbreviation).

The changes in legislation concerned three major lines, which were adopted on a continuing basis:

(a) a new curriculum development strategy, giving social partners a more explicit role in the renewal of vocational curricula for senior vocational education. Developing occupational profiles was considered to be the sole responsibility of the social partners, while the translation into training profiles was considered to be a shared responsibility of social partners and the vocational education and training field. The legislation was implemented in 1988 (cf. Brandsma, 1993, 1994b; MOW, 1987);

(b) permission for all secondary education establishments to offer their services in the market including the so-called 'contract-activities' (from renting school premises to providing courses for third parties). The legislation reinforced an emerging situation, in which some educational institutions (notably senior vocational colleges and adult education institutions) were operating in the market by establishing separate foundations which did the contract work. This part of the legislation was implemented in 1989 (cf. De Bruijn c.s., 1993; Vrancken, 1994);

(c) mergers between senior vocational schools and institutions providing school-based short-term vocational courses. The enlargement was considered a prerequisite to the intended increased autonomy of the new educational institutions in the area of educational, organisational, personnel and financial policy (MOW, 1987). The law was implemented in 1991 (cf. Brandsma, 1994b).

The tasks and responsibilities in the new systematic approach for curriculum development were defined as follows:

(a) the social partners would be responsible for compiling the qualification profiles. In practice this was carried out by commissioned, specialised research organisations;

(b) the national organisations for apprenticeship training, or the BOOBs, would be responsible for the development of the training profiles, containing learning goals, classified in modular and coherent entities representing a set of activities or skills that could be tested and certified;

(c) the merged vocational education institutions would be responsible for further designing the training programme in order to meet the goals set out by the ministry in accordance with the social partners. It was left to the discretion of the schools as to how these goals were achieved.

These procedures, as well as the division of tasks and responsibilities (among social partners on the one hand, and the educational field on the other hand) are still the main basis for the present development of national qualification structures.

The institutionalisation of the contract activities from 1989 was an important change though it was simply a formalisation of an already existing practice for schools to earn additional money, albeit on small scale (De Bruijn, 1993; Schuler, 1989; Vrancken, 1994). With the introduction of these legal changes the government hoped to stimulate a more market oriented attitude among schools for secondary education with the expectation that:

(a) employability and qualifications or competencies of teaching staff would be broadened;

(b) initial (vocational) education curricula would be renewed or up-dated on the basis of interaction with the 'out-of-school world';

(c) schools would develop new activities especially serving new clients like business and industry.

The last element was (and is) based on the assumption that the involvement of schools in contract activities would make them more aware of, and responsive to, the specific needs of enterprises as well as the changes in production processes and technologies leading to changing qualification needs. It was hoped that (within the boundaries of the pre-set final learning objectives and qualification structures) schools would try to adapt and innovate training programmes in order to meet those needs, thus providing a basis for a continuous process of innovation.

2.2.2 Overall objectives of the mergers

The reform's emphasis on mergers included obligatory mergers between senior vocational education schools and experimental institutions for providing (school-based) short term vocational courses. This included an optional merger with apprenticeship, adult basic education institutions or general, secondary adult education institutions. Major aims of the mergers were:

(a) enlargement of scale should provide the basis for more autonomy of educational institutions. To realise this autonomy it was thought to be a precondition that educational institutions should have a 'minimum scale'. This minimum should, on the one hand, enable the educational institutions to hire sufficiently specialised personnel to run the institution in an entrepreneurial way and, on the other hand, to deploy their enlarged autonomy in an efficient and effective way.

(b) merging the two types of educational institutions was supposed to create a situation in which it would be possible to develop individualised and tailored learning pathways, geared towards the different needs and capabilities of groups of pupils. Separate small institutions, specialised in their own specific area, were presumed not to be able to bring about these changes.

(c) large (multi-)sector vocational education institutions, with ample autonomy, were thought to be better able to respond to changes in the (regional) labour market and the needs of business and industry and, by means of this, to improve the match between education and the labour market.

(d) adaptation of the training and instruction towards the specific capacities and needs of different groups of students.

(e) incorporation of specific (regional) labour market needs.

This development was an initial move in the direction of the ROCs. Educational policy with regard to vocational education and training, which finally resulted in the establishment of the ROCs, has remained remarkably stable from the mid-1980s until now (De Bruijn, 1997). In addition to deregulation and improving the match between education and the labour market, 'flexibility' and 'innovation' have been key issues. One could say that the rationale is based on two pillars: decentralisation and increased autonomy of educational institutions on the one hand, and improving the match with the labour market on the other hand (cf. Brandsma, 1994b, 1999a, 1999b, 1999c; De Bruijn, 1997).

Flexibility would make it easier to transfer between programmes and would also increase transparency. This should, ideally, limit the number of dropouts. On average, about 40% of an enrolment cohort do not complete the vocational programme they start. There are, however, differences between programmes (e.g. economic-administrative training programmes appear to do worse than other programmes) as well as schools. There are also indications that those who leave the training programme they started, often continue with another training programme or return to training at a later stage (Van Batenburg, 1995; Brandsma, 1999a). All attempts by educational policy makers to reduce dropout rates have, up to now, been relatively unsuccessful.

Concerning the lack of transparency in the educational supply, it has been argued that the various different programmes, at different levels and with different durations, made it rather difficult for employers to grasp what kind of qualifications were actually provided and what the differences might be between the various offers. Moreover, the lack of transparency of the offer could also make it difficult for young people to choose the training route most suitable for them and, since various programmes were provided by different institutions it was difficult to change pathways. Integrating the various offers in one institution and subsuming them under the same curricular structure would increase the transparency for employers and students and would make it easier for students to change pathways (cf. Brandsma, 1994b).

In general the goals underpinning the first round of mergers hold for the establishment of the ROCs as well. A specific characteristic of the ROCs is that they bring together initial vocational education and training and adult education, stimulating the transfer from the latter into vocational tracks (or further or higher education). On the one hand this reflects a changed attitude with regard to adult education – a movement from a socio-cultural, second chance function, towards a more socio-economic function. On the other hand, it also reflects the concern that the least qualified will not fully use the possibilities for increasing their qualifications. In the past, for example, it appeared that transitions from adult basic education into a vocational track were small and problematic (cf. Inspectie, 1991; Moerkamp c.s., 1991).

2.2.3 Arguments against the mergers

Considering arguments against the reform, it is once again necessary to start with the first round of mergers (the SVM-operation) in the very early 1990s. Preparations for these mergers were set in 1987 with a government proposal outlining the major objectives as discussed in the previous chapter. Major objections against these mergers were (Brandsma, 1994b):

(a) the possible loss of particular expertise gained with the short-term vocational courses, which included guidance and counselling of students. Though evaluation studies showed that certainly not all of the intentions were realised, it was feared that the expertise gained during these experiments would be lost once these 'projects' were included in larger vocational educational institutes, probably giving the more traditional senior vocational education institutes a dominant role;

(b) the minimum size of 600 students for the new (multi-)sector vocational education institutions in order to be entitled to public funding. On the one hand, there were concerns that this might lead to too large-scale institutes in which students would become anonymous (the fear of a learning factory). On the other hand, there were fears that vocational schools with a certain, special background might be forced into mergers with schools of a completely different background, thus losing the constitutional 'liberty of education'. This objection was later met with the inclusion of the rule that a smaller size is acceptable if the new college is the last of a particular denominational direction;

(c) the budget cuts. The mergers as such were an organisational issue, but with clear innovative goals. It was stated in the proposals for the change of legislation that the whole operation should be neutral from a budgetary perspective, but at the same time it was calculated that the operation as such would result in a saving of 140 million Dutch guilders.

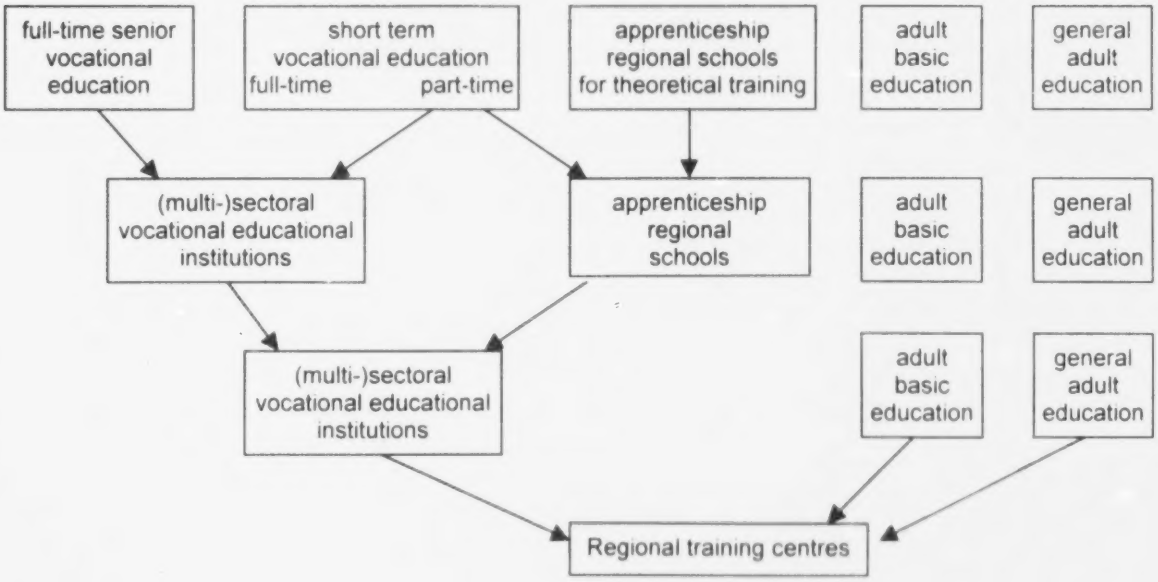
Another, specific objection came from private providers in the training market. They complained that the newly established institutes offered training at prices not related to market value, using the existing publicly funded infrastructure to lower the prices calculated for courses offered on the market.

2.3 The Law on education and vocational training (WEB): the regulation in relation to ROCs being adopted

The first round of mergers was a first step in the process of restructuring both vocational training and adult education. The SVM-operation, as far as the mergers were concerned, was concluded by August 1991. Already in 1992 the first policy document appeared concerning the establishment of the ROCs, stimulating the educational institutions not to wait until new legislation but to launch into further mergers on a voluntary basis. In 1993 a keynote was published elaborating the main issues and announcing a new law that would encompass both vocational training and adult education, the so-called Law on education and vocational training (WEB). The WEB came into force in 1996, rounding up a process of mergers and temporary changes in legislation concerning all the different types of education and training that were finally subsumed under the ROCs (adult basic education, adult general secondary education, part-time vocational education and training, and senior vocational education).

With the introduction of the new qualification structures in August 1997, the former distinction between school-based senior vocational education (including the short-term courses) and apprenticeship training has been abolished. The distinction made in the WEB is the one between a 'school-based' and a 'work-based' learning route. In the school-based learning routes between 20% to 60% of the total curricular time should be devoted to 'practical training', while in the work-based learning route more than 60% of total curricular time should be devoted to practical training.

Figure 5 Subsequent merger processes in vocational and adult education



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The idea of establishing ROCs combining all vocational and adult education provision, did not, as such, elicit much opposition, though again the fear of 'learning factories' was expressed. However, what did elicit opposition was the obligatory nature of becoming a ROC. Particularly among those vocational education institutions that during the first round of mergers had already opted for broad colleges including apprenticeship training and some adult education provisions (already coming close to the idea of a ROC), opposition to obligatory mergers within the proposed timeframe, was strong. Within the new timeframe, establishment of ROCs had to be concluded by January 1998. Nevertheless, some of the vocational colleges established after the first round of mergers anticipated this change and started the process of mergers earlier. The implication was that already in March 1996 the first group of ROCs was officially recognised by the Minister of Education. Despite the legal timeframe, the process of establishing ROCs should be fully finalised by January 2000.

The most obvious implication of the process of restructuring the VET and adult education system is the huge decrease in the number of institutions and the increase in the size of the new institutions. Where the vocational and adult education field formerly encompassed about 700 independent institutions[5], presently there are 46 ROCs. Table 3 gives a more precise overview of the development in the number of publicly funded institutions in the sectors of senior vocational education and adult education, from 1993 onward.

Table 3 Number of publicly funded educational institutions (senior vocational education and adult education, excluding agricultural education)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
BE*	166	118	48	7	-	-
Non-ROC	228	186	104	29	21	19
ROC	2**	6**	24	46	46	46
Total	***396***	***310***	***176***	***82***	***67***	***65***
Average size	1 641	2 053	3 581	7 321	9 297	

* BE = adult basic education

** This concerns educational institutions, which became ROCs 'avant la lettre'. Through specific choices made in earlier mergers, they already encompassed all education and training types that should be included to be recognised as a ROC, before the WEB was actually implemented.

Source: Education report 1998, Inspectorate.

As could be expected, with further mergers between institutions and an increase in scale, the average number of students per ROC increased as well. Whereas the average size of the educational institutions in school year 1993/94 was slightly over 1 600 students, this had increased to well over 9 000 students in school year 1997/98 (figures for 1998/99 not yet available).

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[5] This was the situation during the late 1980s, with then over 400 schools for full-time vocational education, about 26 institutions for (full-time) short-term courses, a similar amount of schools for theoretical instruction in the apprenticeship system, about 200 adult basic education institutions and a number of schools for secondary general adult education and specific forms of training.

However, overall student numbers have dropped slightly, due to demographic developments. The relative increase in student numbers in 1997/98 seems to be due to the inclusion of in-service education (especially in the health care sector), which previously was kept outside the ROCs (being the responsibility of hospitals). First figures of the January 1999 Inspection , show that the increase in student numbers will not continue (Inspectorate, 1999). Table 4 provides an overview of the student numbers for the same years.

Table 4 Student numbers in vocational and adult education

	1993/94	1994/95	1995/96	1996/97	1997/98
Vocational education*	430 300	429 200	422 900	396 500	410 000
Adult education	219 600	207 200	207 400	203 800	202 000
Total	***649 900***	***636 400***	***630 300***	***600 300***	***612 100***

* The relatively strong reduction in student numbers in vocational education and training between 1995/96 and 1996/97 is mainly caused by a change in the counting system, due to which students enrolling later on in the school year in one of the apprenticeship schemes are no longer counted for that year (they will appear in statistics over the next school year).

Source Ministry of Education, Culture and Science

It is expected that the total number of ROCs might decrease slightly, given that there are some relatively small ROCs, which presumably will merge. As a consequence of this, the size of the institutions has increased considerably, with some of the largest ROCs having up to 35 000 students enrolled.

2.3.1 New educational content

The policy on educational content has changed from detailed prescription to global steering on the basis of final learning objectives. This change was implemented most notably with the so-called second-generation final objectives, which became effective in August 1993 (cf. Brandsma c.s., 1995a), followed by the implementation of the national qualification structures in August 1997. Where in the past subjects, subject content and timetables (per subject) were prescribed at the central level, the present situation can be characterised as a form of 'management by objectives'. The final learning objectives or national qualification structures define the learning targets, which should be achieved at the end of a specific vocational programme. The way in which these are achieved – that is, the instructional models and processes applied, teaching and learning materials used, exact time devoted to practical training, etc. – is at the discretion of the ROCs themselves. It is the qualification structures (as developed by the national bodies of senior vocational education) consisting of so-called 'partial qualifications' or modules, which have replaced the former subject structure and timetable.

The law describes the range of programmes that can be offered from an educational point of view, including initial vocational education and training, adult education and contract activities. The overall characteristics of the first two are prescribed, leaving more detailed regulations to separate Ministerial decisions where thought necessary.

It is stipulated that initial vocational education and training can comprise programmes at four levels, as distinguished within the new national qualification structures. Each training programme or qualification is divided into separate partial qualifications that are awarded separately as well.

Table 5 provides an overview of the numbers of enrolments in the school year 1997/98 in the new training programmes according to level.

Table 5 Enrolments in the new training programmes by level (1997/98)

Programme level	Total	MALE	FEMALE
Assistant training	11 507	7 846	3 661
Basic vocational training	51 470	33 152	18 318
Programmes preparing for independent performance of a vocation	28 198	15 078	13 120
Middle management training	68 938	34 679	34 259
Training for specialists	2 120	1 971	149
Total	***162 233***	***92 726***	***69 507***

Concerning adult education the WEB distinguishes between four types of programmes, which can be offered by ROCs. These programmes are:

(a) general adult secondary education;

(b) education programmes aimed at a broad societal functioning of individuals;

(c) Dutch as a second language;

(d) education programmes aimed at self-proficiency of individuals.

One further implication of the implementation of the WEB, is that the ROCs are confronted with new tasks (or obligations). These concern the guidance of students during their practical training outside school and the so-called 'naturalisation contracts,' i.e. special programmes for immigrants.

The guidance of students during their practical training is partly a new task for the ROCs to whom all guidance has now been transferred. This means that all students are now entitled to guidance and counselling by the ROCs. This transfer of responsibilities has caused protest from ROCs. In their opinion the increased workload caused by this change should have been accompanied with an appropriate increase in budget, which in their perception has not happened (cf. Doornekamp & Brandsma, 1998).

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2.4 The changing institutional context of ROCs

With the first round of mergers beginning in the early 1990s and the legislative change allowing vocational education and training institutions to provide training activities for third parties in the market, the relation between these institutions and the central and regional public authorities has been changed fundamentally. The present institutional context in which ROCs are operating is rather complex, encompassing various actors that are not only related to the ROCs, but also linked to each other in various ways. This section first outlines the overall organisational structure of ROCs, which is necessary to an understanding of their position and operation in a broader institutional context, which will be discussed afterwards.

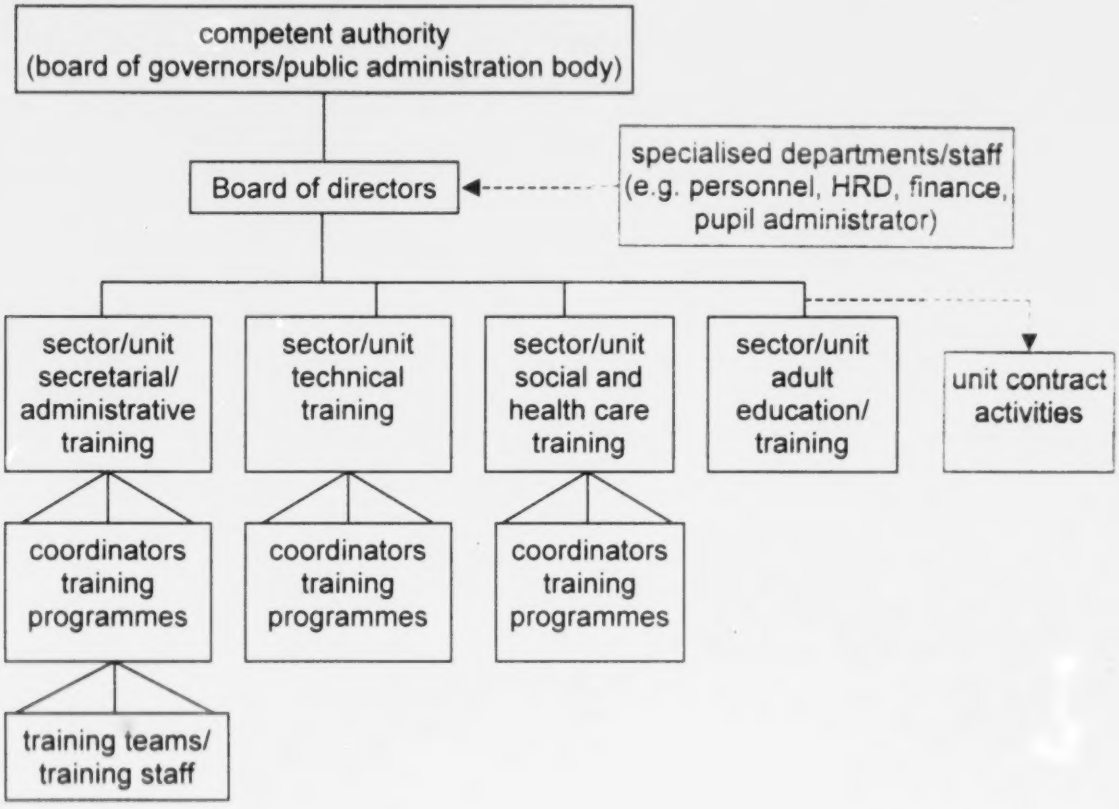
2.4.1 Institutional organisation of ROCs

The WEB reinforces the autonomy the educational institutions gained during the first round of mergers. The law only prescribes that each ROC has to have a board of directors with a maximum of three members, one being appointed as chair by the competent authority. Though, in principle, the competent authority of a ROC carries, from a juridical perspective, the responsibility for a ROCs functioning in all areas (finance, personnel, organisation, educational policy, etc.), the way in which a ROC is actually operated is left to the discretion of the institution itself. The WEB allows ROCs to decide whether or not, and to what extent, they want to delegate responsibilities to 'lower' management levels. However, each ROC is obliged to develop an administrative order, in which the organisational and responsibility structure of the ROC is outlined.

The competent authority of a ROC can either be a public administration body (local authority) or a board of governors (comparable with a board of commissioners in business and industry), often linked to a foundation or another legal body. This refers to the distinction between public and private (vocational) schools, which is a denominational issue in the Netherlands. In principle the government funds all schools, as long as the education delivered is considered to be the responsibility of the government. Private schools have their own board of governors, while public schools have the local authorities as their board of governors. However, the WEB envisages that local authorities can transfer their competency to another body, which – according to legislation – is authorised to sustain and maintain a public institute. This means that local authorities can, for example, establish a foundation on which authority to govern a public ROC can be bestowed.

Figure 6 depicts the organisational structure which underpins most ROC organisation, though there will be variation between ROCs with regard to the distribution of responsibilities and tasks between management levels, the actual number of organisational units, and the extent to which units or sectors are broken down in departments (cf. Brandsma c.s., 1998).

Figure 6 General organisational structure ROCs



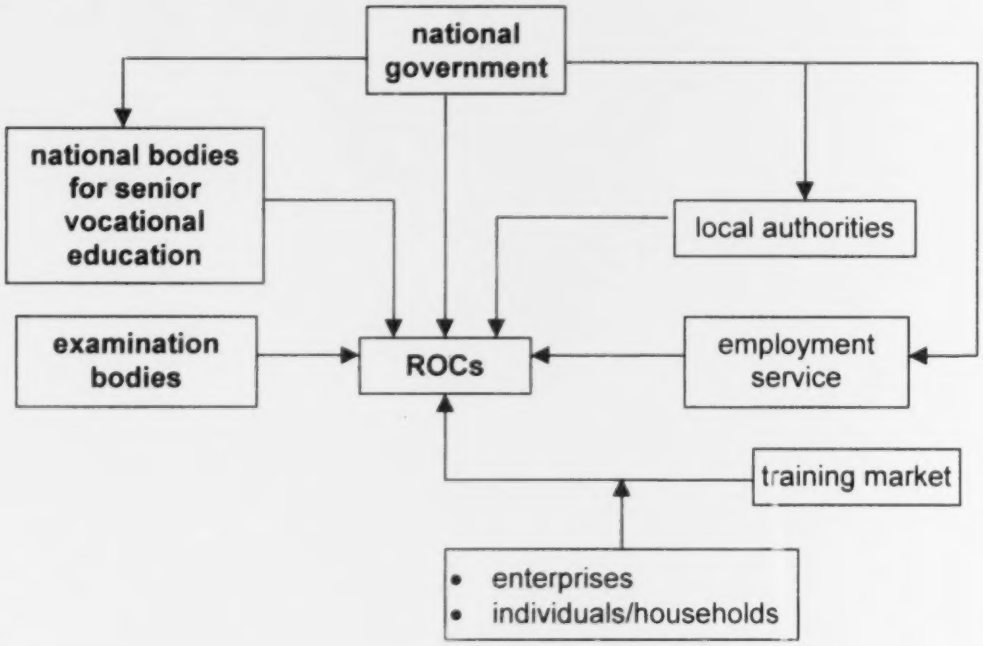
As shown in Figure 6, two specific organisational units will not occur within all ROCs. The first is the unit 'contract activities'. ROCs are allowed by law to perform contract activities for third parties (mainly providing training on a contract basis, but it can also concern rental of classrooms or premises). The organisational structuring and embedding of these activities can vary greatly and is not prescribed but most educational institutions have preferred to locate the activities in a separate foundation. Whether this strategy is taken to avoid the educational institution itself being affected by negative financial results, or as an organisational try-out, is not fully clear. De Bruijn c.s. (1993) presumes that once educational institutes have gained sufficient experience working in the private market of contract activities, they will opt for integration of the separate organisation into their own institute. There are however, no clear indicators that this development has occurred.

The function of specialised departments or staff dealing with e.g. personnel or HRD policy, finance, organisational development or pupil administration, varies between ROCs, mainly in the extent to which they make use of such specialised departments/staff and whether the specialised functions are centrally organised centrally or decentralised (e.g. per unit) (cf. Brandsma c.s., 1998).

2.4.2 Institutional context of ROCs

The institutional context, in which ROCs operate today is rather complex, encompassing various actors that are not only related to the ROCs but also to each other. The different actors and their mutual links are depicted in Figure 7. Each actor is described briefly in this section. A more detailed description per actor is provided in the subsequent subsections.

Figure 7 The institutional context of ROCs



2.4.3 The relationship with central government

The national government, represented by the Ministry of Education, is responsible for the funding of the ROCs, the national bodies for senior vocational education and the examination bodies. In addition, the Ministry of Education approves the national qualification structures, defines the regulations concerning the examination procedures and quality assurance and decides which training programmes are offered by which ROCs.

With the change in legislation at the start of the 1990s and the first round of mergers, a process of intended decentralisation and autonomy increase started characterised by territorial decentralisation (cf. Brandsma c.s., 1995b, 1996; Bray, 1994). Within the new regulative framework of the WEB, policy development and implementation in the areas of organisational, personnel, financial and educational policy is left to the ROCs.

A particular feature of the new relationship between central government and the ROCs concerns the way in which the actual offer of vocational programmes is regulated. Each year before September 1st the Minister approves (or determines) the final learning goals of

the vocational programmes for the next school year to follow (e.g.: the final learning goals for the vocational programmes in the school year 1999/2000 were determined before September 1st 1998). In addition, the Minister determines which programmes will be publicly funded. Once this has been done, the ROCs must state which of these programmes they want to offer. They will thus have to apply to the 'central register vocational training programmes' (CREBO after its Dutch abbreviation), which registers all funded vocational training programmes on offer per ROC. An important condition for getting approval to offer a specific programme concerns the efficiency of the total offer. The judgement of efficiency is based on two criteria:

(a) relevance for the labour market (what are the employment perspectives);

(b) the availability of sufficient numbers of practical training posts (given that substantial parts of the training should be practical, preferably within a regular enterprise).

After the first round of applications (for the school year 1997/98) the ROCs made significant criticisms on the way in which these criteria had been applied. Because of this, allocation procedures have eased, making it less difficult for ROCs to start new training programmes if these complete the programmes already being offered (Inspection, 1999).

The overall relationship between central government and the ROCs has changed during the last 10 years towards one in which governmental steering has been placed at a distance. Moreover, ROCs have strengthened their position vis-à-vis the central government. The ROCs as a collective, represented by their national council, the BVE-council, have achieved the position of a partner with which the government has to negotiate. This becomes particularly clear where the funding issue is at stake.

2.4.4 The funding of ROCs

The ROCS are primarily funded from government resources, although there is some private funding. For standard vocational training programmes and adult education programmes as defined in the national qualification structures, ROCs receive funding from the public authorities. Funds for vocational training programmes are transferred directly from the Ministry of Education to the ROCs, while funds for adult education programmes are transferred from the Ministry of Education via the local authorities. In addition, participants have to pay a fee. Finally, the ROCs can attract funding through their contract activities. These can be either public funds acquired through tendering (e.g. from the employment service) or private funding (e.g.: through acquiring contracts with enterprises).

A fundamental change to the regime for public funding was implemented early 1990s. Instead of the former funding regimes, which were mainly based on actual declaration of the different types of expenditures within the limits of the various pre-set cost categories (personnel, building and building maintenance, teaching materials, teaching equipment, furniture, etc.), funding is now based on transferring a lump-sum to the ROCs. These lump-sum budgets (mainly based on enrolment numbers and the average personnel costs) allow ROCs to decide which part of the budget will be spent on different types of (current)

expenditures (cf. Brandsma & Kornelius, 1999), thus providing the management with greater liberty in setting its own policies. However, it is envisaged that part of the lump-sum ROCs receive will become output related from January 2000 onwards. Introduction of the new funding model will, however, take place in stages with the full implementation of the new funding model in January 2004. With this staged implementation, government wants to provide the possibility for adaptations (e.g.: in the way output is calculated and less advantaged groups of students or weaker achievers are taken into account) if deemed necessary.

The idea of introducing output-related funding in vocational education as such is not new. During the first round of mergers in the early 1990s, the government planned to introduce output-related funding for part of the vocational training programmes. Output-related funding has re-emerged with the establishment of the ROCs with the difference this time that government has established clear consultation with the ROCs (primarily via their representing BVE-council). Issues to negotiate include the definition of output, the appropriate calculation models, the way in which differences between different target groups and groups of students can be taken into account and the possible tension between output-related funding and the issue of access. Since the ROCs are expected to provide access to training for all (exemplified by the fact that there are no entry requirements for access to the level 1 and level 2 vocational programmes), this is a controversial issue.

In addition to this, the detailed information needed to be able to calculate the part of the budget that will become output-related causes some controversies. ROCs fear that too specific and dis-aggregated information – which is needed for calculating the output-related part of the budget – might lead to a situation in which the privacy of both students and institutions might be threatened. This will be especially so if such information is used to inform the public about the performance of individual institutions or units within these institutions. In order to solve these controversies, government and the ROCs – that is, the BVE-council – negotiated a so-called information statute, specifying which information will be provided by the ROCs and how it will be used (Brandsma, 1999a).

Nevertheless, the funding of the ROCs is mainly public; either received directly from the Ministry or via the local authorities. The Ministry of Education also pays for the study grants of students following a programme within a ROC. Direct expenditure for the Ministry of Education on vocational training, adult education, and naturalisation contracts (with local authorities) form the total expenditure of the Ministry on the ROCs. Part of the expenditure on study grants is returned via the fees paid to the ROCs and the fees paid to the Ministry (the fees cannot be disentangled). Expenditure on study grants grossly exceeds the income derived from the fees, since the grants can also cover the costs of housing and living for students that live on their own. In this sense, the figures presented are an overestimation of the total funding. At the same time it should be taken into account that the figures are also an underestimate, since detail of private funding from enterprises for practical training received within enterprises is lacking.

Table 6 Total amount of funding for vocational training, adult education and naturalisation contracts (within ROCs)

	1993	1994 [1]	1995 [2]	1996 [3]	1997 [4]	Budget 1999 [5]
Part. Rates	*649 900*	*636 400*	*630 300*	*600 300*	*612 100*	-
Total funding Min.of Education	***4 202.8***	***4 440.6***	***4 485.6***	***4 670.6***	***5 340.7***	-
• Vocational training	2 438.8	2 512.0	2 656.4	3 018.1	3 060.5	3 223.0
• *Adult education*	*604.9*	*612.8*	*562.8*	*543.4*	*455.0*	*412.0*
• Naturalisation Contracts	-	-	-	128.6	152.2	188.7
Total public funding by source:						-
• Direct funding	3 043.7	3 294.2	3 410.8	3 709.3	4 055.2	4 164
• Study grants	1 159.1	1 146.4	1 074.8	1 089.9	1 285.5	-
Total private funding						
• Fees paid to ROCs	56.1	55.8	53.4	54.8	64.9	
• Fees paid to Ministry	373.0	372.1	356.9	360.5	393.9	
Total funding	**4 631.9**	**4 868.5**	**4 895.9**	**5 085.9**	**5 799.5**	

1 The total (direct) expenditure, exceeds the sum of the separate budgets for vocational training and adult education since both the expenditure for reduced pay and examinations have been included in the total expenditure. Expenditure on reduced pay amounted DFL 149.1 million and expenditure on examinations DFL 20.3 million.

2 The total (direct) expenditure, exceeds the sum of the separate budgets for vocational training and adult education since both the expenditure for reduced pay and examinations have been included in the total expenditure. Expenditure on reduced pay amounted 170.7 million DFL and expenditure on examinations DFL 20.9 million.

3 This is the first year that expenditureon naturalisation contracts is included, one of the new tasks of the ROCs (see also section 2.6.1), though this expenditure is, according to the sources in the Ministry of Education, not included in the total expenditure. For consistency reasons we included this expenditure so that our total is slightly higher than the total from departmental sources (being DFL 3 580.7 million). In addition to this, total expenditure still includes the expenditure on examinations (DFL 19.2 million), but the expenditure on reduced pay has been excluded from the Ministerial accounts.

4 Total expenditurealso includes the expenditure on examination (decreased to DFL 9.2 million) and, for the first time, expenditures on housing, amounting to DFL 378.3 million.

5 The budget for 1999 does include the category 'study grants', but this is not broken down for different types of education (e.g.: vocational training, non-university tertiary education or university education). The budget for 1999 includes a posting of DFL 383 million for housing. The budget for examinations in 1999 is estimated at DFL 11.9 million (after having been about DFL 12.6 million in 1998). The budgets for vocational training and adult education do not include 'other costs' since such a specification is missing in the 1999 budget for this category. These 'other costs' are included in the budgets for 1993-1997, since the accounts specify these other costs for, respectively, vocational training and adult education.

Source: MOCW (www.minocw.nl).

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What becomes clear from Table 6 is that overall expenditure by the Ministry of Education on training and education provided by the ROCs has steadily increased over the last years. However, where the budget for vocational training does slightly increase every year, the expenditure on adult education slowly decreases. This is partly compensated by the introduction of a separate budget for the so-called 'naturalisation contracts', comrpising courses intended for new immigrants and refugees to ensure their integration in Dutch society.

The fluctuation in study grants matches with the fluctuation in student numbers, especially the student numbers in vocational training, since study grants have an age-limit; those older than 27 are no longer entitled to receive study grants. The decreasing student numbers in vocational training, with the sudden increase in school year 1997/98, are also reflected in the fluctuations in the fees that are paid. Participants in adult education are generally not eligible for study grants, but do not have to pay fees either (or only a reduced fee). The decrease in student numbers in vocational training programmes between 1994/95 and 1996/97 is not reflected in the relevant expenditure, since the budget for the vocational training programmes was increased during these years.

Fluctuations in total public funding can, to a certain extent, be explained by accounting variations. From 1994 onwards, for instance, expenditure on examinations was included as a separate post in total expenditure and from 1997 onwards, the expenditure on housing was included in the total expenditure.

It must be noted that, before the mergers started, the institutions now under ROCs had varied legal and administrative positions. These comprised both institutions under ministries and institutions established under religious associations. The majority were operated by a foundation or association established as a legal private entity but were nevertheless forced to merge.

2.4.5 The relationship with local government

The relationship with local government is two-fold. On the one hand, there are public ROCs for which the local government, in principle, is the competent authority (in the sense of being the governing board). On the other hand, local authorities are responsible for allocating the budgets for adult education activities.

Given the subsequent mergers in the field, in most cases local government will no longer bear sole responsibility for governing the ROC, though it may be (and often is) represented in the governing board.

Concerning the allocation of funds, local government is responsible for the funding of the adult education component of the ROCs. The budget available for adult education is transferred from the national government (Ministry of Education) to the municipalities, taking into account the number of adult inhabitants as well as their educational and ethnic background. Even if the vocational programmes on offer have to be registered centrally in

order to be funded and recognised, ROCs in principle offer all adult education programmes (on all levels) without prior approval. Nevertheless, the actual offer (programmes and volumes in a specific year) can be influenced by the local authorities that fund the adult education offer, since they are considered better suited for determining the specific need for adult education in their municipality.

The actual use of the money (how much for which activities) is therefore the responsibility of the local authorities, based on their assessment of adult education needs. In addition to this, local authorities have to sign an agreement with the providers, stipulating the nature of the activities, the number of enrolments, the period of provision and the total budget paid to a specific provider. Though, in principle, this procedure opens up the potential for competition, this rarely occurs. All previous independent providers with (substantial) experience in the area of adult education have been subsumed under the new ROCs.

2.4.6 The relationship with the employment service

The main regional authority that ROCs deal with is the employment service. The changes in this relationship, however, come from revision to the structure and operation of the employment service and its ability to perform contract activities. In particular this relates to the introduction of tendering procedures through which the employment service purchases training for its clients, instead of automatically providing training through its own training institutions. The employment service can be a customer of the ROCs, since the contract department of a ROC can tender to providing training for the employment service.

Though part of the employment services' funded training of the unemployed is provided by the ROCs, accurate figures on the total share of ROCs in this training market are not available, neither from the employment service nor from the ROCs themselves.

2.4.7 The relationship with the national bodies for senior vocational education

Though the role of the social partners had gained importance throughout the 1980s, the WEB further institutionalises this role via the new national bodies for senior vocational education. With the implementation of the WEB, previously existing structures like the National Bodies for Apprenticeship Training and Sector Consultancy Bodies Business and Education, have been abolished and replaced by the new National Bodies for Senior Vocational Education.

The board of the national bodies for senior vocational education has either a bipartite structure (half representatives from employers' organisations and half representatives of employee organisations) or a tripartite structure, in the sense that both social partners and the educational field are represented (one third each). In the latter case it is the board that advises the Minister on issues like learning goals for qualification structures. In the former case the national bodies make useof a so-called 'education-labour market committee'

advising on issues related to the content and goals of the vocational programmes. In these committees half of the representatives should come from the social partners and the other half from the educational institutions.

Presently there are 22 of these national bodies, covering all the occupational areas for which senior vocational education prepares. Major tasks of these new bodies, which came into operation during 1993 and are organised according to sector, are (Brandsma, 1999a):

(a) development of the qualification structures and more specifically of the final goals or exit qualifications per training programme on the basis of occupational profiles. The development of the occupational profiles is the responsibility of the social partners within an occupational sector. However, the actual work is often undertaken by national organisations for vocational education and training.

(b) monitoring of the developments within their specific sector and 'translation' of these developments into possible implications for vocational training and the qualification structures.

(c) adaptation of the qualification structures as a continuous process.

(d) general quality assurance of vocational training by maintaining qualification structures.

(e) assessment of practical training posts within enterprises for their general quality.

(f) legitimisation of the final exams of training programmes.

The task of monitoring developments in occupational areas and translating these into vocational education and training programmes is mainly undertaken through 'innovation monitors'. These monitors collect information at regular intervals from businesses, in order to see if new technologies are applied or if new organisational structures are implemented, which might have consequences for the qualifications that are needed.

2.4.8 The relationship with examination bodies

Examination bodies are a new phenomenon, installed when the WEB became operational. Examination and testing (for the partial qualification), is mainly school based. That means that the ROCs themselves are responsible for the examinations (with the exception of some of the education programmes). However, in order to be able to control the quality of these examinations, an external validation of part of the examinations for partial qualifications (at least 51%) is foreseen. Specific examination institutes established for this purpose can apply for accreditation with the Ministry. All national bodies for senior vocational education are presently acknowledged as examination institutes. In addition, some educational support institutions (like the national institute for curriculum development) try to operate in this market as well, sometimes in cooperation with ROCs. Private institutions can also apply for accreditation as examination bodies, one example being the examination institute in the information technology sector.

In contrast with the previous situation, ROCs now have to pay for the examination of their students. It is this issue in particular which has elicited protests from the ROCs, since their budgets have not been increased accordingly. Further, ROCS oppose the lack of competition given that, in reality, the national bodies for senior education uphold a monopoly in most sectors, thus leaving no options for the ROCs to choose, e.g. on the basis of price (Doornekamp & Brandsma, 1998).

CREBO decides on an annual basis which partial qualifications are subject to external validation and legitimisation. Presently, the external validation and legitimisation of partial qualifications is in a stage of transition. Until August 2000 at least 25% of the partial qualifications are subject to external validation and legitimisation. For all training programmes starting after that date, the requirement is that at least 51% of the partial qualifications should be validated externally.

2.4.9 Quality assurance of the ROCs

Despite outsourcing many responsibilities, funding and quality control remain major governmental responsibilities. Since increased autonomy of the ROCs might lead to differentiation in quality between them the government has included regulations concerning quality assurance procedures at the institutional level in the WEB. According to these regulations ROCs are obliged to:

(a) set up a quality assurance system;

(b) draft a quality assurance report every two years.

The quality assurance report has to provide information on both the characteristics of the quality assurance system and its functioning. ROCs have to report how they implement quality assurance systems which ensure systematic and continuous standardisation, realisation, evaluation and improvement. ROCs are obliged to report on the actual activities that have been undertaken in the area of quality assurance and improvement. Full implementation of the obligatory quality reporting should take place in 1999. ROCs already have a duty to report on more than the way the quality assurance system was designed but the first full quality assurance reports delivered offer little more. In their present form, the reports only contain global information on quality assurance activities, providing relatively little concrete information that is fully suitable for steering purposes (Van Esch & Brandsma, 1999).

In addition to the quality assurance procedures and reports, central government has other instruments at its disposal for steering the quality of the VET system (Brandsma, 1999a):

(a) national qualification structures and final learning objectives: the objectives can be perceived as the 'product definitions' of the training, while the qualification structures as such should ensure coherence between training programmes;

(b) examination and external legitimisation: in order to ensure the value of both partial qualifications (certificates) and full diplomas, ROCs are obliged to have part of the examinations validated externally;

(c) training contracts, which ROCs agree with each participant and which define rights and duties of both parties (including the assurance that the participants get the specific training that was agreed);

(d) funding: especially with regard to vocational programmes, funding will be based on the number of enrolments, the number of completions (counted as the number of diplomas) and the number of participants from less advantaged groups. This system of output-related funding will be implemented in 2000;

(e) information provision: ROCs are obliged to provide the government with information concerning the number of enrolments, dropouts, completions and transfers between training programmes.

Inspection will have an important role in quality control and evaluation of the ROCs. ROCs have to provide their quality assurance reports to the inspectorate as well as other requested information. The WEB, in principle, offers the opportunity to withdraw funding or accreditation (in the case of non-funded private providers) if the quality of the offer falls below quality standards for a number of consecutive years (Brandsma, 1999a). In addition to this a new system of 'school evaluation' is presently in preparation[6] This system, called 'Integrated Institutional Supervision', intends to monitor all aspects of the functioning of ROCs in an integrated way (instead of, for example, only looking at output). Together with quality assurance procedures, this should provide both the inspectorate and the central government with a solid information base for further policy development.

2.4.10 ROCs position at the commercial training market

The position of ROCs in the (regional) training market has a twofold character. Firstly, the fact that ROCs are allowed to perform contract activities implies that they are confronted with market mechanisms and competition. Secondly, under the new legislation, ROCs are also confronted with possible competition in their traditional market of initial vocational training, given that private providers are allowed to operate in this area as well.

Surprisingly little information is available about the volume and profitability of the contract activities of ROCs. Studies concerning this area mainly stem from the late 1980s and the early 1990s, i.e. before the mergers took place, and seem to focus more on the impact of the contract activities on training staff, the content of the regular training programmes and possible marketing strategies for future ROCs, than on the actual volume of these activities (De Bruijn c.s., 1993; Vrancken, 1994). It is estimated that the gross income generated by contract activities does not, on average, exceed 5% of the total budget

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[6] This new system of school evaluation will also be implemented in primary education and general secondary education. First results are already available for primary education.

ROCs receive from public funding. A survey on enterprise spending in 1993 showed that about 6% of the money spent by enterprises on external corporate training went to schools (CBS, 1994). Though more recent figures are not available, it seems justified to conclude that ROCs are still mainly publicly funded and only a relatively small part of their budget is earned in the market. It should be mentioned that the legislation does set certain limits. ROCs undertaking contract activities and hiring staff to perform such activities, should ensure that expenditure on staff paid from money derived from public funds should not drop below 51% of the total expenditure on staff.

With regard to competition in the area of initial vocational training, one of the new elements the WEB introduced is the opportunity for private providers to offer officially recognised vocational education and training programmes. Within the context of the WEB these private providers are now 'accredited' as official competitors of the ROCs, offering programmes on the same terms as the ROCs. Presently, approximately 60 private providers offer officially recognised vocational training programmes or qualifications. Most of these providers are rather specialised, offering a limited range of training programmes in a specialised area (e.g. in the area of computers, book keeping or hairdressing), while others offer a broader range of training programmes (including the two largest Dutch organisations for correspondence education). Nevertheless, if participation rates in non-publicly funded education are compared with the student numbers of ROCs, it will be clear that the competition for ROCs in the area of initial vocational education is relatively modest.

2.5 Impact of the reform: performance and structure

One of the intentions of the reform was to provide more opportunities for the students to switch to a different programme (either at the same or a lower level) within the same institutions. Providing such opportunities would, it was assumed, reduce the considerable numbers of dropouts. Another intention was to strengthen management (which was perceived as a necessary precondition for a more market-oriented performance of ROCs) as well as to stimulate ROCs' external orientation and networks. These particular intentions are addressed in this section.

2.5.1 Performance: rate of return

A specific performance issue that needs to be addressed here concerns dropout rates, as this was one of the underlying aims of the reforms. Approximately 45% of the students starting one of these training programmes leave the programmes without a diploma, although there are high levels of variation between different education sectors (Van Batenburg, 1995; Ganga, 1992).

Integrating different types and levels of programmes was considered as a possible contribution towards the reduction of dropout by providing better paths for students to transfer between programmes. This particular expected outcome of the integration has not yet materialised. It appears that dropout from senior vocational programmes is still

relatively high and has not substantially changed since the first round of mergers. Ina comparison of two longitudinal studies focusing on the same institutions from 1987/88 and 1993/94, it appears that overall dropout rates are similar (Van Batenburg, 1995; Brandsma, 1999a).

The study of Brandsma (1999a) does however, show that the majority of the students that were registered as dropouts returned to the educational system. Most of these students either chose a different training programme at the same level or took a training programme at a lower level. Most of them did so within the same educational institutions. Whether this is due to the integration of different programmes into one institute is difficult to say, since data on the destination of dropouts before the mergers are lacking.

The longitudinal study of Brandsma concerned students who started their three- or four-year programme in 1993/94. It does not, therefore, concern the success of the training provided under the new qualification structures within the ROCs. Some more recent figures, focusing on these new training programmes, are available from the Inspectorate (1999). They surveyed dropout during the first year of the basic vocational training programme (1997/98) in 26 ROCs. Their findings are that, on average, 22% of the students drop out during the first year of the two-year programme. Though there are differences between ROCs, these are not significant. There are significant differences however, between training programmes within ROCs, with some programmes having a dropout rate of 0, while other programmes have a dropout rate of up to 40%. Of the students that leave training about 7% do so because they have obtained a job or want to start looking for a job, while a similar percentage leaves the training without their destination being known (Inspectorate, 1998).

Within the system of national qualification structures this incentive is even stronger, given that the national qualification structures are based on 'partial qualifications' as the establishing units of each qualification level, which should serve different purposes. Firstly, where students leave a training programme before finishing it, they have gained at least one or more partial qualifications. It is assumed that having some qualifications will strengthen their position in the labour market,. Whether this assumption holds will depend on the valuation of employers of such partial qualifications. Secondly, organising the training programmes around partial qualifications with a certain 'overlap' between similar programmes at different levels is presumed to ease transfer from one programme to the other. This 'incentive' is especially perceived as being important for the low and under achievers, for whom direct enrolment in a level 2 programme might be discouraging. Thirdly, the use of partial qualifications (again) is presumed to indirectly stimulate modular-based programmes and, in addition, greater flexibility and more adaptive programme offers, taking into account differences between different groups of students.

Recent studies indicate that organisation of training programmes is strongly based on the concept of partial qualifications (Brandsma, 1999a, 1999b). This does not necessarily mean that greater flexibility is achieved. In principle it is still possible to relocate training content solely over different time units (other than the traditional school year), without

providing for differentiation between students according to learning speed or sequence. Nevertheless, it does appear that modular-based programmes have gained a stronger grip on the way in which training offer is organised. This could be the result of the experience ROCs have gained over the last five years with modular-based programmes. It could also be caused by the fact that the structure of partial qualifications has now gained a legal status whereas formerly the clustering of final objectives was only a requirement for the format of the documents defining these goals. At the same time, it is clear that flexible programmes (allowing for differences in progressing speed, sequence of modules, time devoted to modules, and enrolment moment as well as finalisation moment) still cause large organisational problems (Brandsma, 1999a, 1999b).

2.5.2 Structure and management

The increase in institutional scale since the introduction of ROCs has implications for the management of these new ROCs. The first round of mergers provided for the first time the opportunity to have a professional central management encompassing more than one person. Consequently, overall management structure experienced a shift towards a two- or three-layer management, with increasing autonomy for the middle management level (Brandsma, 1994b). This has been further reinforced with the ROCs where the board of directors represents the top or strategic management level, and the leaders of the sectors or units the middle or tactical management level. In most ROCs, if not all, the management structure can be characterised as a three-layer structure, with co-ordinators within sectors or units representing the operational management level (cf. Brandsma c.s., 1998). At the level of operational management, staff often have a certain number of hours per week to perform their co-ordinating tasks and then teach for the remainder of the week.

Table 7 provides an overview of the development in staff numbers within ROCs (and the previous vocational colleges and adult education institutions) since 1993.

Table 7 Development of staff numbers in full-time equivalents (numbers x 1000)

	1993/94	1994/95	1995/96	1996/97	1997/98
Directors*	1.0	0.9	0.8	0.6	0.5
Teaching staff	21.6	21.0	21.4	22.0	22.5
Other staff	9.8	9.9	9.5	9.0	9.7
Total	***32.4***	***31.7***	***31.2***	***31.6***	***32.7***

* Includes middle management.

Source: Ministry of Education, Culture and Science (1998b).

After some decline, the numbers of staff employed seem to slowly increase, with the exception of the management positions at the top and middle management level. Given the subsequent mergers, finally culminating in the establishment of ROCs, the number of director's positions has, of course, dropped.

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Whether the ROCs are really able to develop their own organisational policy is questionable, at least in the short term. Due to labour legislative regulations, it is necessary to take into account the former position of applicants when, for example, dividing new management posts. Again, this inhibits the freedom to appoint the most suitable candidate for a post. Moreover, it prevents 'fresh blood' from outside the former institutions being partners in the merger, appointed to strategic positions (cf, Brandsma c.s., 1995b). It appears that the criteria of 'former position in partner vocational training institutions' and 'experience in similar management positions' have been the most important criteria in the selection processes for new management posts in the subsequent merger processes. This reflects the necessity to take into account previous terms of employment of candidates. Nevertheless, there appears to be a slight shift in the importance of selection criteria. Asked which selection criteria would be most important if a new merger should occur, management experience in a similar position and apparent management capacities are the most important criteria, with 'former position in partner institutions' dropping to third place.

Whether employment will continue to grow is not clear. The increase in staff numbers from 1995/96 onwards is related to the development in the number of students, with the expectation that the slight increase in total numbers over the last two years will not continue.

The number of part-time workers seems to decrease as well. According to the Inspectorate, the decline of part-time labour is probably caused by the ageing of staff, with older staff members more often having full-time appointments than new staff. Taking the average age of teaching staff (figures for other staff and directors are not available) as an indirect indicator for turnover among staff, it could be assumed that this turnover is relatively low (see Table 8). At the same time, the increasing average age of the teaching staff indicates that the decline in employment within ROCs in the period 1994-97, has primarily been to the detriment of the young staff (following the 'last in, first out' principle).

Table 8 Average age of teaching staff ROCs

	1993/94	1994/95	1995/96	1996/97	1997/98
Average age	40.3	43.0	43.6	44.3	45.0
Percentage older than 50 years	12.8	21.0	23.2	26.7	30.2

During the first round of mergers, the major objective of the management was to establish a new organisation and to try to ease the differences in organisational culture between the constituent elements of this new organisation (Brandsma, 1994b). However, given the increased complexity of the environment in which ROCs have to operate, and the expectations with regard to a more market-oriented approach, internal process control, though necessary, should be complemented with strategic planning and management.

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Some argue that this is exactly what was intended by the decentralisation and increase of the institutional autonomy; providing the ROCs with the space and freedom to develop their own policies and strategies at operational, tactical and strategic management levels (Van Wieringen & Vermeulen, 1995). Studies performed around the mid-1990s, however, show that strategic policy development was still little elaborated within the institutions, which were mainly focussing on target formulation and internal analysis instead of an analysis of different strategic options. Increased autonomy did not seem to increase the development of policies, partly because it was questioned whether autonomy had increased at all (Ax, c.s., 1994; Brandsma c.s., 1995a, 1995b; Van Wieringen & Vermeulen, 1995). More recent research results (concerning the vocational units within the ROCs) show that management still is characterised by a rather strong internal orientation. Establishing a commonly shared mission with regard to the organisation and the education and training offered, together with a good preparation of students for working life and getting students into the most suitable training track as quickly as possible, are considered the major goals the organisation should strive for. At the same time, acquisition of external additional funding is considered as being of minor importance (Brandsma c.s., 1998).

These findings indicate that, even though the establishment of the ROCs was not the first merger most institutions went through, the process as such requires substantial time and effort. It takes time to create a new organisation, bridging the differences in culture between different organisations and types of education and fitting all staff into the new organisations. However, it might also be an indication that publicly funded education and training still comprises the major task of the ROCs.

There is a tendency towards a clearer crystallisation of the division of management task and responsibilities. The board of directors as being the top management level has a strong involvement in the areas of financial-economic and organisational policy making and the maintenance of external contacts with a strategic value. Educational policy development, as well as the area of personnel policy, has mainly shifted towards the level of the middle management, who are the prime responsible in this area (Brandsma c.s., 1998). This might be an indication that the internal orientation might slowly be accompanied by a more external focused orientation.

2.6 Conclusions

In the second half of the 1980s the Dutch government set out a strategy, which affected both labour market policy and vocational education and training policy, and which resulted in new legislation for both the employment service and vocational education and training institutions in the early 1990s. Enlargement of scale, increased autonomy and flexibility were the key concepts of this strategy. The aim was to improve regional cooperation between the education infrastructure (the present ROCs), the employment service and the labour market in general. With this, the fragmentation of the training field should be reduced and the development of a coherent (regional) and transparent offer of vocational education, adult education and training should be stimulated. The establishment of the

ROCs and the present plans around 'centres for work and income' can be perceived as a final stage of a process set in motion nearly 10 years ago. Though it still seems to be too early to be fully answered, the question is whether the strategy has succeeded.

The strategy for the ROCs appears to focus on territorial decentralisation by devolving decision-making powers to the institutions. Though the intention is to provide ROCs with a high level of autonomy, the influence of government on the operation and functioning of the ROCs is still strong, albeit more indirect. A first and powerful instrument is the funding of ROCs. The ROCs are dependent from the government for their survival, given that they mainly operate on public funding. The quality assurance system and accompanying instruments that have been set in place are also instruments to maintain control of the quality of the services delivered. From the perspective that it is public money that is spent, this seems to be reasonable enough.

Furthermore, the option for training organisations other then ROCs to be approved for providing recognised training within the national qualification structures, extends the influence of the central government to the market. The possibility to either grant or withdraw such approval provides government with an instrument to regulate the market and access to that market. Thus, the terminology of 'market' seems to become less appropriate and the concept of 'quasi-market' appears to be more applicable. As Levacic (1995) coins it, quasi-markets often remain highly regulated, with government still controlling matters like entry of new providers, investment, quality of service and price. Moreover, the separation of purchasers from providers with some user choice between providers seems not (yet) to be in place[7]. Whether this will change with the introduction of the 'centres for work and income' and the private reintegration companies is unclear.

From the 'consumer' perspective the choice between providers is limited. Though there are private providers offering some of the official qualifications, the ROCs overall seem to have a somewhat monopolist position. Though students enrolling in a training programme provided by a ROC have to pay fees as well, these will probably be lower than fees charged by private providers, given that the latter are not funded for their provision. In time, this might lead to inequality, certainly if the private, commercial providers appear to be better trainers. High income families will not only be in a better position to pay higher fees, but appear to have better access to information on issues like quality, achievements and performance (Echols & Willms, 1995; West, 1996).

Concerning the issue of coherence and transparency, the implicit assumption is that an increased market will result in greater coherence of the offer and greater transparency. Training which is not demanded will disappear and providers trying to find new niches in the market will supply non-supplied or under-supplied demands. Given the competitive situation, providers have to make clear to prospective clients what their offer is and what the quality and merits of their services are.

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[7] The market for training of the unemployed is one example of this, since the employment service still runs their own training centres, notwithstanding the intentions regarding open tendering to get the best training for the best price.

In terms of coherence it seems that at least one aim has been reached. Even though many students still leave the training programme they first opted for, they mostly stay on in the education system (and the same ROC) continuing with another programme. Effectively, dropout rates seem to be falling. This conclusion has to be formulated with some precaution, since a good comparison with the pre-ROC period is not possible and further longitudinal research will be needed to be able to prove causality.

At the same time it should be doubted whether the abundance of specialisations and qualifications as established with the new qualification structure, will enhance both coherence and transparency. This is so not only from the perspective of students and participants, but also from the perspective of the labour market. It is thus questionable whether or not employers will be able and willing to perceive value in the various new qualifications. In this respect various actors (both from training institutions and from business) have argued that a reduction in the number of qualifications and a certain de-specialisation, establishing less but broader profiles, is needed.

Notwithstanding the critical remarks, it has to be acknowledged that much has changed in vocational education and training during the last decades. The links between education and the labour market have been strengthened. At system level the social partners are involved in the process of curriculum development and renewal. At the institutional level (that is: the level of the ROCs) business and industry is often represented on the board governing the ROC. In addition to this, there are various other committees and networks where representatives from ROCs and representatives from public authorities, social partners, etc. meet. The increased involvement of business and industry has not resulted in the labour market dictating curriculum content as was feared in the 1980s. Instead, the idea of shared responsibility for both content and quality of vocational education and training seems to have materialised. Consequently, the enterprises' complaints in the 80's about the qualitative mismatch between vocational education and the labour market are hardly spoken of nowadays.

Part 3 Amu-Gruppen in transition: the economics and politics of corporatisation in Sweden

3.1 Historical background

3.1.1 Introduction

In the Swedish context, the concept of employment training is broad, covering:

(a) training for those who are unemployed;

(b) training for those who are in danger of becoming unemployed;

(c) training or re-training of employees in order to make the company more competitive.

With such a wide perspective there is a role for both public sector and private sector actors. Employment training has played an important role in the economic and social development of Sweden in the past half century although its driving motivation has changed gradually over time, as has its organisation. The volume of resources available for employment training has shown dramatic growth over an extended period of time, and an even more dramatic decline during recent years.

Part 3 contains six sections. Section 3.1 presents the contextual background of the economic and labour market developments necessary for understanding the changes in the organisation of employment training over the past fifteen years. Section 3.2 provides a description of the 1986 reform of Amu, at that time virtually the sole supplier of employment training. Section 3.3 provides a description of the 1993 reform of AmuGruppen, by that time no longer the sole provider but nevertheless the dominant supplier. In both sections, attention is given to the factors driving this evolution and to managerial aspects of the reform process. Section 3.4 describes recent developments, beginning with the Amu's attempt to find its way in the nascent training market and ending with its search for market niches in the new millennium. Section 3.5 discusses the economic performance of the new organisation, beginning with the financial crisis of 1996 and ending with the most recent evidence. Section 3.6 provides conclusions, with special attention given to lessons learned, problems, and remaining issues.

3.1.2 A brief history of employment training in Sweden

Training for unemployed persons began in a small way in Sweden as early as 1914 with the establishment of a state commission on unemployment. It ended in the boom years of the 1920s but was re-introduced during the depression of the 1930s. Although the training

provided was not complete vocational training, it recognised the role of vocational skills in promoting employment. In the latter half of the 1930s employment training declined as employment rose.[8]

With the beginning of the World War II, a state labour market commission (*Statens arbetsmarknadskommission*) was established in 1940 to follow developments in the Swedish labour market and to secure national supply during the war. The employment offices, which hitherto had been the responsibility of the local councils, were temporarily nationalised, and county labour market boards (*länsarbetsnämnden*, LANs) were established under the state commission. Previously vocational training was seen as something for the young, but now re-training was provided for older unemployed workers.

In 1948 the state labour market commission was replaced by the National Labour Market Board (*Arbetsmarknadsstyrelsen, AMS*). Employment training was seen as a counter-cyclic measure: when the business cycle turned down and unemployment was high, training could help prepare people for the jobs that were available or would be created when the business cycle turned up again. From the mid-1950s, employment training increased somewhat, especially with the rise in unemployment at the end of the 1950s.

It was at this time that the concept of *active labour market policy* developed. It became clear that the employment services needed to become more active in *preventing or at least reducing the likelihood of* unemployment, and not simply wait passively for unemployed persons to apply for jobs. The employment service began to take the initiative, actively seeking out unemployed persons and taking contact with firms that had given layoff notice to their employees, with trade unions, and with local councils. They held information meetings, opened temporary employment offices, and prepared vocational training programmes. The aim was to act as soon as possible when a person became unemployed or was in imminent danger of *becoming* unemployed, so as to ease and speed up the return to employment. This approach was seen as favourable not only for individuals but also for employers and for the country's economy as a whole.

Of all active labour market policy instruments, the most important was the employment services, and training became the second most important. Re-location support (subsidies to support movement from areas of high unemployment to areas of low unemployment) was introduced in 1959. Other labour market policy instruments, such as unemployment compensation and relief work, came to be seen as passive and pacifying. AMS pushed the county labour market boards to implement training instead of relying on unemployment compensation and relief work. In 1976, an employer's fee was introduced to help finance employment training.

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[8] AMU-Gruppen. 'Vi har våra rötter' [We have our roots]. Stockholm: AMU-Gruppen. 1991. pp. 13-14.

3.1.3 The development of modern employment training[9]

The first employment training (*arbetsmarknads utbildning*, AMU) centre was established in 1958, and by 1959, some 8 500 persons had participated in employment training. The number of persons participating grew rapidly from the beginning of the 1960s. Labour demand was stimulated by an economic upturn, labour force shortages led major industries to send delegations outside Sweden's borders looking for workers. Domestically, attention turned to a 'reserve' labour force, and employment training was the mechanism for moving housewives, older persons who had left the labour market, and persons with work disabilities into paid employment.

With the strong economic growth of the 1960s, a new labour market policy emerged, under the rubric *'bristyrkesutbildning'*, or '*shortage* employment training'. Under this policy, employment training could be provided for occupations in which labour was scarce, even for persons who were not unemployed or in danger of becoming unemployed. People could *change* occupations if they wanted and could receive training to help them. Employment training expanded, and AMS purchased training not only from AMU centres but also purchased training capacity in both industry and secondary schools.

Stimulated by a strong labour demand, the labour market policy was indeed active. The volume of employment training continued to expand rapidly throughout the 1960s. Swedish active labour market policy was a recipe for success: the economy showed strong growth, and Swedish industry experienced growth and re-structuring. During the 1960s and 1970s, as unemployment rose and fell, employment training served as both a buffer and a mechanism to improve flexibility in the labour market.

In 1983, yet another new labour market policy emerged: *'flaskhalsutbildning'*, or '*bottleneck* employment training'. Under this policy, employed persons could receive further training to help get rid of bottlenecks that resulted from the transition to a new technology, such as numerical control (NC) technology in industry or the use of computers. Although there were periods of decline in the 1970s and mid-1980s, the long-term trend continued upward until 1996. But a combination of an economic downturn, a large government budget deficit and high unemployment led to a change in labour market policy.

The development of employment training in the post-war period, especially in the 1960s and the 1970s, was accompanied by a corresponding (or perhaps *more* than corresponding) growth of the management bureaucracy. According to the initial rationale, employment training was counter-cyclic. It would *expand or contract*, depending on the level of unemployment. The very success of employment training in serving the diversity of needs for the growth and transformation of the economy had led to the creation of an organisation good at expanding but not good at contracting. The number of courses increased as needed but remained when the need declined. When the need again rose, new resources were provided, and the organisation continued to grow. Unit costs also grew, but relevance to labour market demand fell. The development was unsustainable.

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[9] *Ibid.*, pp. 17–19.

In the first half of the 1980s, a critical look at employment training was taken and the general conclusions were that *costs had to be reduced and operations decentralised*. A system reform was in the creation.

3.1.4 Economic background

In the late 1960s and early 1970s, Sweden's per capita GDP was among the highest in Europe, and the growth rate was high. The welfare state was vindicated: the huge state apparatus and the high expenditure on public services and transfers were an order that created both efficiency and equity. Sweden's visit to the top was short lived, however, and growth rates began to fall. From the mid-1970s to the end of the 1980s, growth rates hovered around 2%. The decade of the 1990s began with a dramatic decline, showing *negative* growth rates in the period 1991-93. Recovery was slow and uncertain. The development of GDP from 1970-97 is illustrated in Figure 8.

Financing the welfare state became increasingly difficult, and by the mid-1980s, deficit spending was the order of the day. At the end of the decade, there was a brief period of budget surplus, followed by nearly a decade of deficit spending, with fiscal year 1992/93 marking a low point, as shown in Figure 9.

Figure 8 Growth in gross domestic product 1970-97

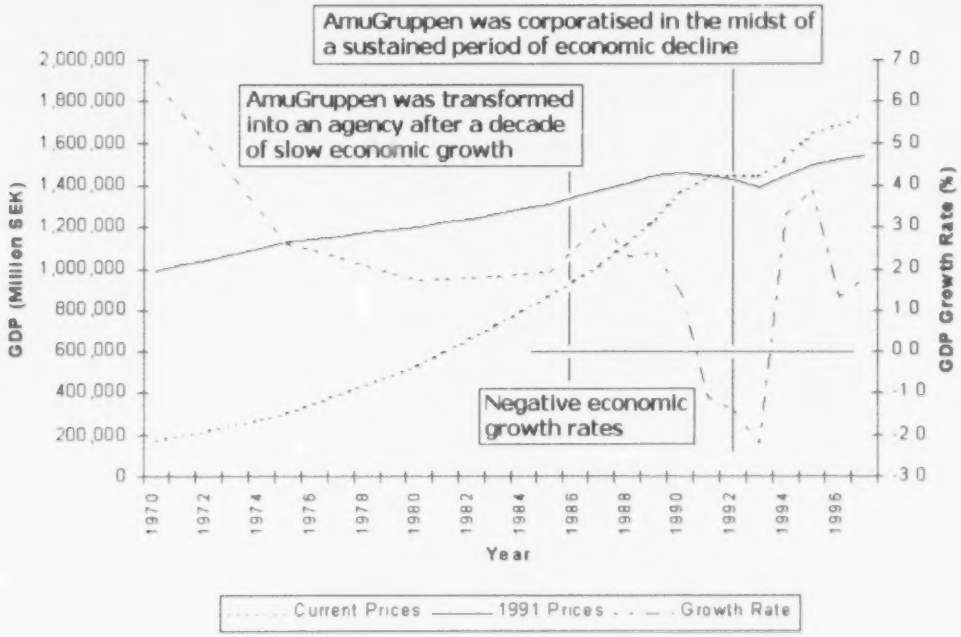
AmuGruppen was corporatised in the midst of a sustained period of economic decline
AmuGruppen was transformed into an agency after a decade of slow economic growth
Negative economic growth rates
GDP (Million SEK)
GDP Growth Rate (%)
Year
Current Prices
1991 Prices
Growth Rate

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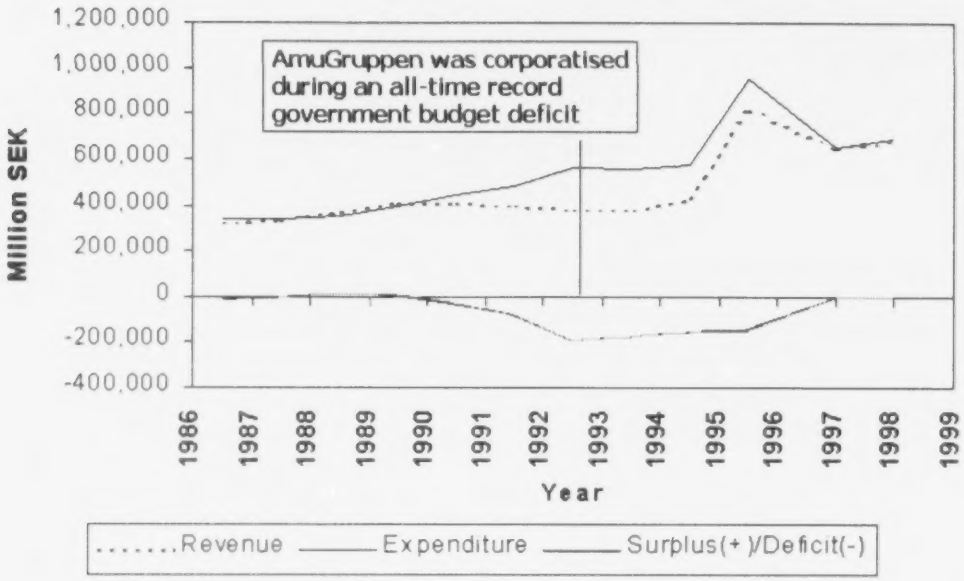
Figure 9 Revenue and expenditure of the Swedish state budget



The magnitude of Swedish spending on social protection in general in comparison with spending of other European Union countries is shown in Table 9 for the years 1993-95, the peak years for government deficit spending. Over this period, Sweden had the highest social protection spending of all EU countries. Over the period, there was a general decline in the level of social protection spending, but Sweden showed a more rapid decline than most other countries. Spending on social protection spending was converging with EU spending.

Table 9 Social protection expenditure in the EU Member States (%GDP)

Country	1993	1994	1995	Country	1993	1994	1995
Belgium	29.0	29.0	29.7	Luxembourg	25.2	24.7	25.3
Denmark	33.5	35.1	34.3	the Netherlands	33.7	32.7	31.6
Germany	29.1	28.9	29.4	Austria	28.9	29.7	29.7
Greece	20.8	20.8	21.0	Portugal	21.0	21.0	20.7
Spain	23.5	22.4	21.9	Finland	35.5	34.7	32.8
France	31.0	30.5	30.6	**Sweden**	**38.7**	**37.7**	**35.8**
Ireland	20.9	20.3	19.9	United Kingdom	28.4	28.0	27.7
Italy	26.0	25.8	24.6				

Source: Statistics Sweden.

Changes in labour market conditions in the early- to mid-1990s were compelling. Historically, throughout the post-war period, the level of open unemployment (i.e., excluding those engaged in labour market measures) had hovered around 2% (usually under). With the recession in the early 1990s, unemployment rose dramatically, as can be

seen in Figure 10[10]. Prior to this dramatic rise in unemployment, employment training served as a counter-cyclic measure, often absorbing around one-third of the total volume (open unemployed plus those engaged in labour market measures). Then, as unemployment rose to several times its historical trend level, the high level of employment training service provided in the past became unsustainable.

Figure 10 Growth in gross domestic product 1970-97

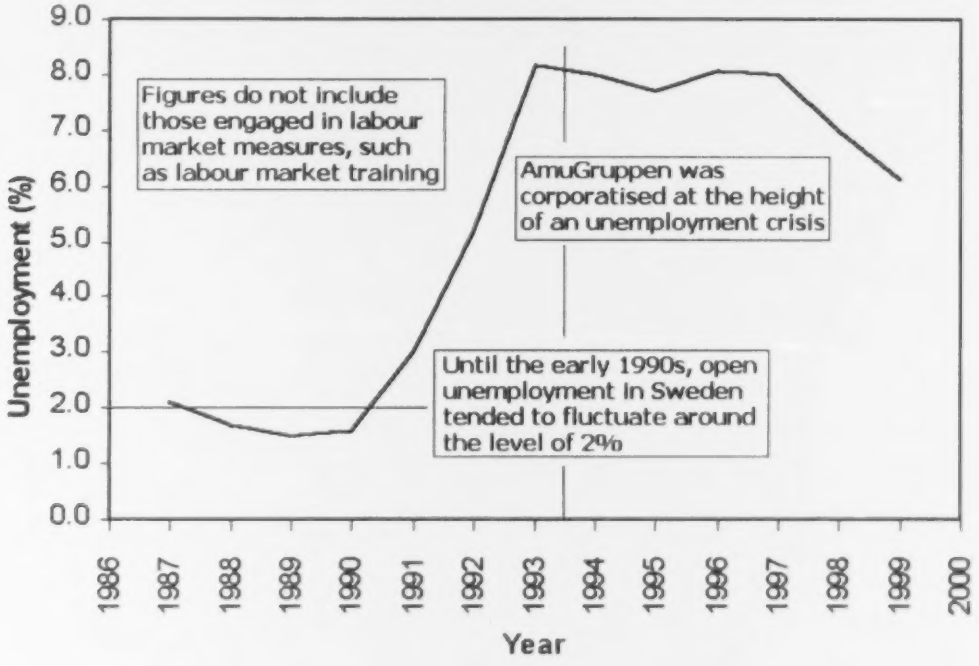


Table 10 provides more detail about unemployment in relation to the volume of employment training. Further, as can be seen in Table 10, the scale has been significant. Persons who are engaged in employment training are not usually counted in Swedish labour market statistics: they are not unemployed, since they do not seek work while in training programmes. The reason they are engaged in employment training, however, is that they want work. If the two categories are combined (unemployed + engaged in employment training) a broader concept than the official definition would be obtained. It can be seen in Table 10 that this category (line 6) rose dramatically between 1990 and 1995, while the proportion of those engaged in employment training (line 8) fell dramatically, although in real numbers the numbers of people receiving training rose by almost 40%. That is, in the beginning of the period, more than one third of all persons without work and wanting work were engaged in employment training; by the end of the period, only about 1 out of 16 were engaged in employment training.

[10] Unemployment figures for 1998 and 1999 are author estimates based on current data provided by Statistics Sweden.

Table 10 Unemployment and employment training, 1990-97 (thousands)

Category		1990	1995	1996	1997
1	Employed	4 508	3 941	3 963	3 922
2	Unemployed (excluding in Employment Training)	69	332	347	342
3	In Employment Training	39	55	44	22
4	Total Unemployed plus in Employment Training (2+3)	108	387	391	364
5	Total Labour Force plus in Employment Training (1+4)	4 616	4 328	4 354	4 286
6	Unemployed plus in Employment Training as % of (5)	1.5	7.7	8.0	8.0
7	In Employment Training as % of (5)	0.8	1.3	1.0	0.5
8	In Employment Training as % of (4)	35.8	14.2	11.2	6.1

Source for (1) – (3): Central Bureau of Statistics.

3.1.5 Swedish active labour market policy

The Swedish Government pursues an *active labour market policy*. Labour market policy is implemented through application of *labour market policy resources*, which cover both *labour market services* and *labour market measures*. Labour market services include core employment services, labour market counselling, and occupational rehabilitation. Labour market measures include a broad range of measures taken to improve employment possibilities for persons who are unemployed or at risk of becoming unemployed.

There are two general types of labour market measures – those related to the *business cycle* and those related to *work handicap*. The intention is that business cycle related labour market measures are adjusted in accordance with the current economic situation. More resources would be allocated in times of economic slow-down and less allocated in times of economic boom. Handicap related measures are not linked to the business cycle but to the needs of individuals regardless of the business cycle.

Business cycle labour market measures can be further subdivided into *those which influence supply* and *those which influence demand*. The first category refers to measures to improve the supply so that it better matches demand, in both the short term and the longer term. The second category refers to those measures which can increase demand through:

(a) economic stimulus packages for temporary work and trainee positions;

(b) advanced recruiting packages, to stimulate employers to fill planned positions sooner than they would otherwise.

These different kinds of labour market services and measures form an integrated package at the disposal of the employment services and Labour Market Institutes.

The overriding aim of labour market policy is to promote the match between job-seekers and open job positions. The Labour Market Administration (AMV) is responsible for the implementation of labour market policy of the Government. The tripartite National Labour Market Board (AMS), which is placed organisationally under the Ministry of Labour, is responsible for purchasing the range and quantity of labour market services needed.

Until the reform of 1986, the operational responsibility for the supply of labour market education and training was held by the employment training department within the National Board of Education. In 1986 this was replaced by the autonomous agency, the National Board of Employment Training and Technical Education, AmuGruppen. Every year, some 2.0%-2.5% of the Swedish labour force participates in some form of public employment training. In addition, large numbers of adults participate in adult education programmes and company training. Most publicly subsidised training is provided by AmuGruppen.

From the mid-1970s to the end of the 1980s, some 65 000-100 000 persons annually received employment training at AMU Centres. In addition, some 10 000-30 000 persons annually received employment training at other private and public training centres (mostly municipal). This may be compared to a total labour force of some 4.4 million, an *open unemployment* typically ranging between 60 000 and 90 000 (1.4%-2.0%), and typically between 140 000 and 190 000 persons (3.2%-4.3%) under labour market policy measures, including training.[11] Employment training typically accounted for 20%-30% of the Ministry of Labour's total allocation to labour market measures.[12] In the early 1990s, employment training represented about 7% of government expenditure on education and training, compared with 8% for general adult education.[13]

Until 1986, virtually all employment training was supplied by AMU (under the National Board of Education until 1986) and subsequently by AmuGruppen (an autonomous agency under the Ministry of Labour between 1986 and 1993). Beginning with the reform of 1986, however, a decreasing proportion of employment training was provided by Amu. This development was exacerbated with the reform of 1993, so the decline shown in Figure 11 below represents an even more dramatic decline for AmuGruppen.

The number of participants in labour market education and training has varied over the years as the situation in the labour market has demanded. The total volume of employment training (by AmuGruppen and other employment training suppliers), measured as persons per month, for the period 1960-97, is shown in Figure 11. In 1992 a high point was reached, with on average 86 300 persons per month. The corresponding number for 1996 was just over 40 000, and the estimated number for 1997 was around 22 000.

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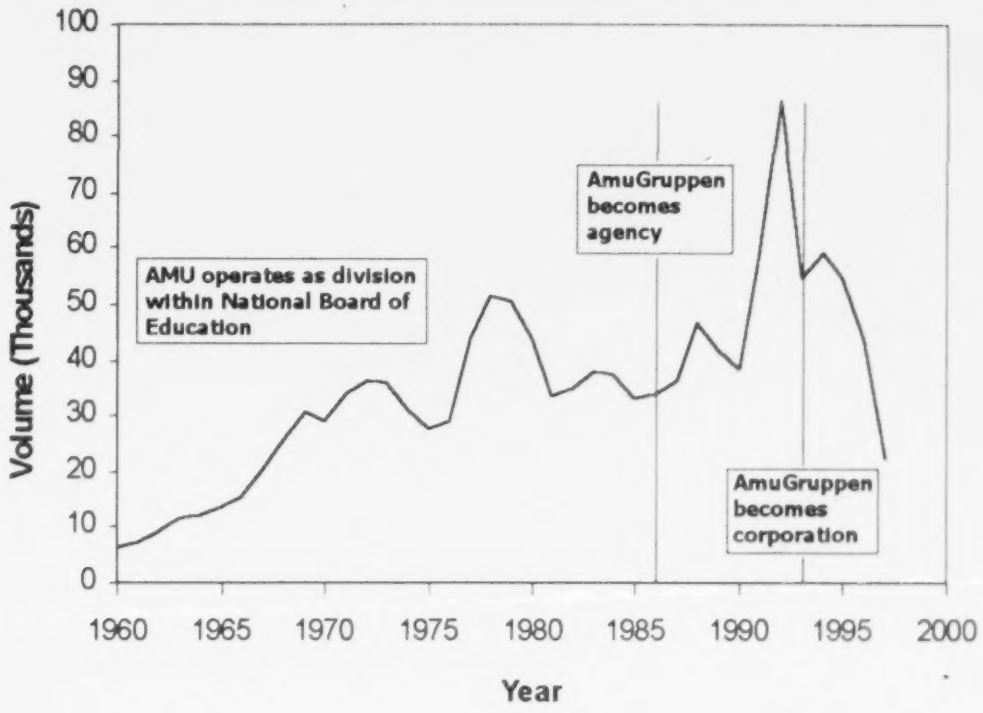
[11] Other labour market policy measures include employment services, employment creation, youth teams, work adjustment, vocational rehabilitation, sheltered employment, refugee assistance, cash unemployment support, and defence relief work. In terms of expenditure, the most important measures are cash unemployment support and employment training.

[12] Statistics Sweden. Statistical Yearbook of Sweden, 1992, Table 211, p. 186.

[13] Statistics Sweden. Statistical Yearbook of Sweden, 1992, Table 409, p. 340.

Figure 11 Number of persons in employment training, 1960-97



3.1.6 The changing policy mix

The overriding aim of labour market education and training in Sweden has always been formulated on the basis of the political goals of stabilisation, growth, and equity. The balance between these goals has varied over time. With the recession at the beginning of the 1990s, more emphasis was given to stabilisation goals. In the 1995 budget proposition, and the proposition on a more efficient labour market policy, emphasis was given primarily to growth and secondarily to equity. This was part of a general change in the political environment reflecting more fiscally conservative policies. This change was motivated at least as much by economic realities as by ideology. The *macro*economic realities have been described above, and the microeconomic realities are discussed below.

One important aspect of policy changes during the decade of the 1990s has been the decentralisation of responsibility to the level of the municipalities. This also applies to many public services including labour market services.

By the mid-1990s, high and rising unemployment was placing excessive pressure on the public budget. As a result, changes were made in the business cycle labour market policy mix. Less costly measures, such as 'working life development' (ALU) and 'work place introduction' (API), were increased at the expense of employment training (AMU). Both of these measures can involve a certain amount of training, but they also *involve insertion into actual work places on the regular labour market* through the use of employment cost-sharing formulas. Even Recruitment Support and Temporary Training Substitute

programmes were reduced. In 1997, four new labour market policies were implemented: (a) Project Work; (b) Resource Work; (c) Labour Market Institute measures; and (d) Public Temporary Works.

When new labour market measures are implemented, it seldom leads to an increase in the overall volume. What usually happens is that the policy mix changes because the level of subsidies and/or unemployment compensation are different or because the new measures better fulfil needs previously met by other measures. During the 1990s, the mix of labour market measures changed substantially, beginning shortly after the corporatisation of AmuGruppen. Indeed the change in the policy mix and the corporatisation of AmuGruppen could be seen as two results of the same changes taking place in political thinking at the time.

The nature and magnitude of these changes can be seen in Table 11, such as the dramatic decline (by about 50%) of employment training during the 1990s, partly due to the rise in other labour market measures. Employment training has always been only one of a number of different business cycle related labour market measures, even if it has been one of the most important.

Table 11 Unemployment measures (thousands of persons), 1992-97

Business Cycle Related Measures	1992	1993	1994	1995	1996	1997
Labour market training (out-of-plant)	86	53	60	55	46	37
Youth training scheme	31	57	56	17	0	0
Relief work	16	14	17	14	8	7
Employed with recruitment subsidies	13	9	25	21	12	4
Substitute for workers on training	8	10	13	11	10	4
Employability assessment institute	8	7	7	8	6	7
Working life introduction	0	35	45	41	52	53
Working place introduction	0	0	0	11	32	34
Start your business grant	0	0	10	10	10	12
Other labour market policies	0	0	1	5	0	0
Computer activity centre	0	0	0	2	12	14
Municipal programme for young people	0	0	0	2	13	14
Public temporary work	0	0	0	0	0	5

Source: Statistics Sweden. *Statistical Yearbook of Sweden*. Stockholm.

The content of labour market education and training has also changed over time, and the change has been especially rapid since 1992/93. Three trends are obvious:

(a) health care training is down;

(b) training in skills for manufacturing is down;

(c) training in administration and computer applications is up.

Although the instruments of labour market policy have included education and training from the beginning, there has been a gradual diversification of instruments. This diversification has been accompanied by increasing attention to targeting. Today there are a number of labour market instruments for combating unemployment in addition to employment services and employment training. The main instruments that have been important in the past decade are employability institutes, IT activity centres, municipal youth programme, recruitment support and temporary training substitute, relief work, start your own business subsidy, working life development, and workplace introduction.

3.1.7 The necessary reforms

One trend in thinking over the past two decades has been toward a greater awareness and understanding of the necessity for tightening the linkage between training and labour market demand. This linkage does not materialise by itself; merely looking at the supply side and ignoring the demand side does not represent effective and efficient use of public resources. It could almost be said that at the beginning of the 1980s, employment training was seen almost *exclusively* as a pedagogical problem. It was assumed that if the job skills were provided, people would find jobs.

By the beginning of the 1990s this view had largely disappeared from within the corps of trainers due to a period of great turbulence in employment training in the latter half of the 1980s, brought about by the reform of 1986. The authors of this reform perceived the impossibility of securing this kind of linkage between training and labour market demand as long as employment training was the responsibility of the education authorities. Training had to be seen as a labour market problem, not as a pedagogical problem.

A second trend is the deepening of the concept of 'active labour market policy'. Activation in the form of job seeking and training, even training linked to labour market demand, is often not enough. Additional efforts are needed to ensure that activation measures themselves get unemployed people into the regular labour market. This insight was gained by the labour market authorities, especially as they struggled to combat high and rising unemployment during the mid-1990s. With this insight came the realisation of the need for a wider range of labour market measures, some involving training *combined with* other kinds of activities more directly linked with real jobs. This in turn required increased flexibility in adapting the training supply to the *specific needs of unemployed* people and the *specific conditions in places of employment* at the *specific time*, at the *specific place*, in a world of rapidly changing labour markets.

There is no reason to believe that a large, nationally organised training supplier can be more responsive, or more quickly responsive, to such specific needs as a free market of training suppliers, operating on a level playing ground, could be. The authors of the reform of 1993 believed that the contrary must certainly be true.

In the remainder of this report, the reforms of 1986 and 1993 are described as emerging attempts to achieve *effective and efficient employment training supply and demand functions*.

3.2 The reform of 1986: from division to agency

3.2.1 Calls for reform

In the late 1970s and early 1980s, rising costs for a wide range of public services led to a number of studies into the origins of cost rises and ways of controlling costs. The studies typically found that rising costs were not accompanied by corresponding rises in productivity. In other words, unit costs were rising and internal efficiency was falling. In the case of employment training, not only were unit costs rising, but external efficiency (job placement, relevance of the training to labour market demand) was falling. This led to a search for new ways of managing and organising employment training.

In 1984 a draft internal document was prepared within the Labour Market Board proposing a reform of the organisation and management of employment training. The preferred organisational form was a public corporation to encourage more flexibility and responsiveness of the organisation to labour market demand.[14] The idea of *corporatisation* of public service organisations, however, was ahead of its time in 1985 when the draft legislation was being prepared. Officially the initiative for the reform of 1986 came from within the Labour Market Administration. The aim was to establish the conditions for opening a market for employment training as a way of increasing the efficiency of training and reducing costs. Under the reform, the supply and demand functions under the Ministry of Labour were formally separated. At the same time, responsibility for the supply function was concentrated into a single training agency, known as AmuGruppen, which was made independent of both AMS and the Swedish National Board of Education (Skolöverstyrelsen, SÖ). The new AmuGruppen was formed as a state agency, i.e. an autonomous organisation outside the ministry.

The reform of labour market education and training had to be made as an act of Parliament. Although there was scattered support for corporatisation, the bill Government introduced into Parliament proposed the agency form rather than the corporate form. The bill was, of course, a reflection of the politics of the party in power – the Social Democratic Party. Even within the Government there was some support for the corporate solution, but the ideological line of the day was the 'third way', representing an alternative somewhere midway between free market solutions and plan economy solutions.

3.2.2 The organisation and management

The essence of the new structure was that *the supply function and the demand function were separated*. The National Labour Market Board (AMS) and 24 County Labour Market Boards (LANs) were given responsibility for *procuring* the labour market services needed, including training. AmuGruppen was established as an autonomous and decentralised

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[14] AMS. *'Ny organisation för den särskilt anordnade arbetsmarknadsutbildningen.' Utredningen om AMU:s organisation.* [New Organisation for the Specially Arranged Labour Market Training. Investigation of AMU's Organisation.]. Dnr VI 141/83. Stockholm: AMS. 1984-03-29.

organisation with responsibility for *supplying* training services. In the event, the Labour Market Administration had difficulties letting go, as will be discussed further below. Although AMU was officially autonomous, the Labour Market Administration tried to steer operations through the budget allocations. Gradually releasing control, real autonomy was not achieved until perhaps some five years after the reform - or perhaps further down the road, with corporatisation, or maybe not even then. We shall return to this subject below.

AmuGruppen organisation was quite decentralised, with county offices having delegated responsibilities and a high degree of independence. Efficiency was promoted by both internal and external marketing, and regional directors were given both operational and financial responsibilities. There were two main line divisions within AmuGruppen: the Division for Labour Market Board Sales and the Division for Corporate Training Sales. AmuGruppen and the 23 regional Amu agencies (there was one regional agency serving two counties), each with its own tripartite board, were responsible for supplying training services. As if to emphasise the devolution of powers, the Director General of AmuGruppen was given a limited staff of about 30, which dealt with supervision, long-term strategic planning, co-ordination of resources within the Group, development of training methodologies, and personnel policy.

The reform introduced market forces into supply and demand equations for training services. With the establishment of AmuGruppen as an autonomous body, the role of the LANs changed. The LANs were then responsible for procurement of employment training services from that supplier which, for each individual procurement, could provide the most cost-effective training. They could purchase training services from Amu or other public education and training organisations, or from private suppliers. AmuGruppen was thus forced to be competitive. Similarly, the regional Amu offices were given both operational and financial responsibilities, and were required to cover their own operating costs from revenue generated by their training and related activities, which they were allowed to sell to LANs and to other public agencies, or to private sector clients. The local Amu units were obliged to treat the LANs as priority customers.

AmuGruppen was thus converted from a *grant-financed national training division* of the National Labour Market Board (AMS) into an autonomous, *revenue-financed training agency* operating in a competitive environment. The rationale for the reform was that by exposing AmuGruppen to the forces of competition, AMU would be forced to be more flexible in adjusting course offerings to the needs of the client, to offer high quality training at competitive prices, and to utilise their resources more efficiently.

The reform of 1986 constituted a move toward the establishment of a corporate form of organisation for supplying employment training. After the reform, the mechanisms were in place for AMU to co-ordinate programmes with other training institutions in order to provide specific training packages. Each division was expected to bear its own direct costs and its share of indirect costs, planned depreciation, staff and product development costs, and profits. Profits up to 5% of turnover could be retained by regional AMU agencies, until they had built up a reserve amounting to 15% of turnover.

AmuGruppen had the goal of covering its costs but did not have the goal of profit maximisation. It did not function like a business. Herein lay the seeds of the demise of the agency form and the establishment of the corporate form in 1993, because the organisation was in conflict with one of the goals of the reform of 1986 – to harness competitive market forces to make training more efficient. Inasmuch as AmuGruppen did not have the goal of making a profit, the playing field was legally inherently unequal. A private training market could not flourish where the biggest actor operated on a non-market basis.

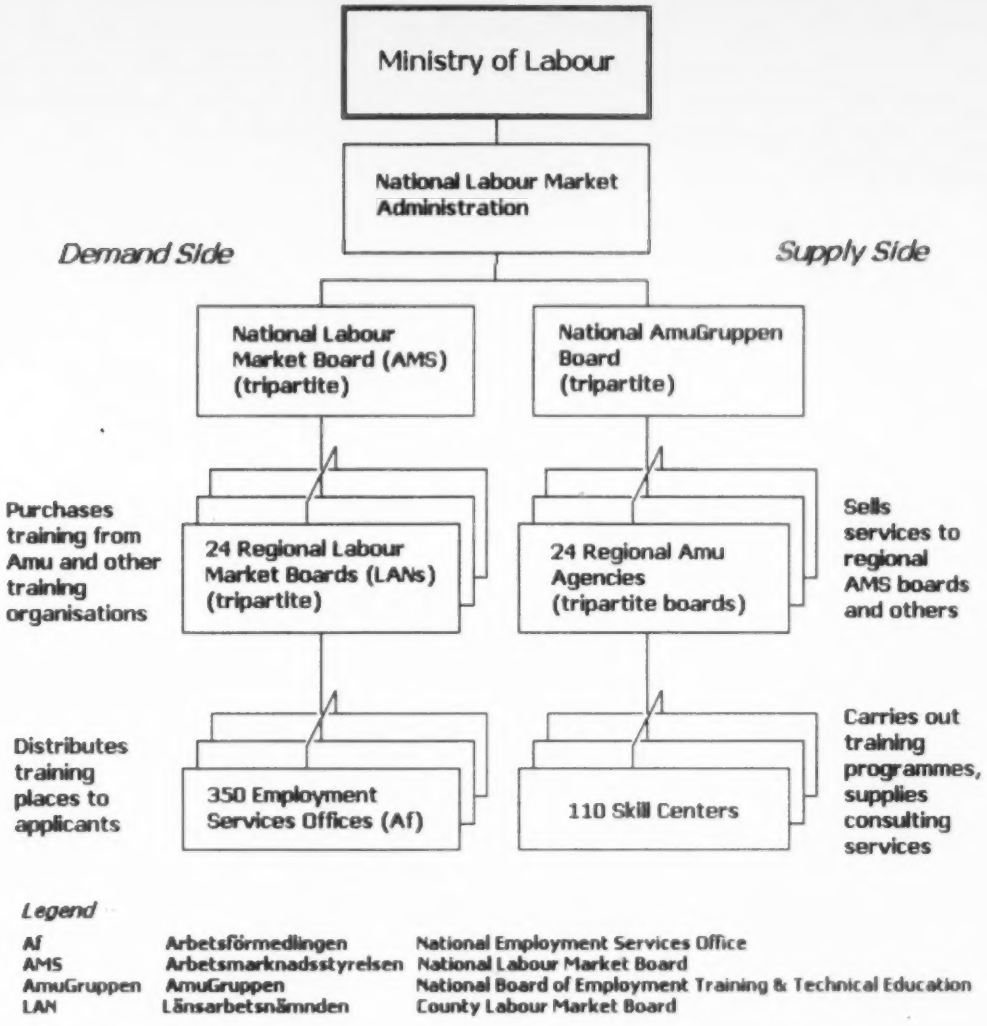
3.2.3 Financing training

The National Labour Market Board (AMS) received an annual budget allocation for the purchase of training services. These funds were allocated to the LANs according to need, as established by the LANs in consultation with the local offices of the 'national employment services' (AFs). The LANs, in turn, purchased the required training services, on the basis of lowest-price for acceptable quality, from AMU Centres, secondary schools, colleges, universities, private training institutions, or industry. Amu sold training services, at cost price or 'lowest price' to the LANs, and at market prices to others[15]. The largest customers for the AMU centres were the LANs, although in later years the AFs have increasingly operated directly as purchasers of employment training.

Each regional AMU was treated as a separate accounting centre, each with its own balance sheet and profit and loss statement. AmuGruppen centrally established economic goals for each regional AMU. It also established development goals within strategic areas. Figure 12 shows the organisational separation of the labour market supply and demand functions.

[15] This was obviously a policy which tended to exclude other potential suppliers of employment training, especially corporate suppliers.

Figure 12 Organisation of AmuGruppen after 1986 reform


Ministry of Labour
National Labour Market Administration
Demand Side
Supply Side
National Labour Market Board (AMS) (tripartite)
National AmuGruppen Board (tripartite)
Purchases training from Amu and other training organisations
24 Regional Labour Market Boards (LANs) (tripartite)
24 Regional Amu Agencies (tripartite boards)
Sells services to regional AMS boards and others
Distributes training places to applicants
350 Employment Services Offices (Af)
110 Skill Centers
Carries out training programmes, supplies consulting services
Legend
Af Arbetsförmedlingen National Employment Services Office
AMS Arbetsmarknadsstyrelsen National Labour Market Board
AmuGruppen AmuGruppen National Board of Employment Training & Technical Education
LAN Länsarbetsnämnden County Labour Market Board

3.2.4 Outcomes of the reform

During the agency period, AmuGruppen's share of the employment training market fell from virtually 100% to about 50%. Both the number of staff employed in AmuGruppen and the number of buildings occupied declined as a consequence of efficiency measures taken. The LANs increased their purchases of training services from suppliers other than AMU Centres, including, primarily, municipal adult education, regular upper secondary schools, universities and colleges, and private training organisations. AmuGruppen's share of employment training declined, while the share going to municipal adult education and private training organisations increased. The private sector's share of the employment training market increased only slowly.

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In addition, an increasing share of Amu's training was sold to the private sector. AmuGruppen's involvement in corporate training increased each year, with revenue from corporate training growing at an annual rate of nearly 25% (constant SEK). Although AmuGruppen still dominated the training market, especially in supplying training services to the manufacturing industry, competition increased after 1986.[16] By the late 1980s, AmuGruppen was financed almost entirely by revenues derived from training and training-related activities. By Fiscal Year 1991/92, AmuGruppen was operating without subsidy and showed a surplus of nearly 10% of total turnover[17] after a substantial 'profit-sharing' or 'incentive' payment to employees.[18]

The decentralisation work of the reform of 1986 strengthened the LANs as purchasers of training in terms of rights, responsibilities, and competence. The central AmuGruppen organisation also strengthened itself in terms of capacity to meet the challenges of a demand-driven operation.

Some problems were seen. The National Audit Bureau found that *training for the* manufacturing *industry had been over-dimensioned, while the external efficiency of this training (job placement rates) was lower than for most other kinds of employment training.*[19] In areas in which the training market was competitive, AmuGruppen had difficulties competing. In areas in which AmuGruppen dominated, there were conflicting views on pricing policy (see below).

Some of the problems derived from the relationship between the buyer (LANs) and the seller (AmuGruppen). LANs were in the habit of purchasing training in terms of places and participant-weeks, for which payment was made regardless of how the places were utilised. As a result, the supplier had little economic incentive to use training places rationally.

This raised a fundamental issue with political and ideological overtones. The issue could be expressed pointedly by asking what incentive the LANs would have to buy cheaper and higher quality training services from the private sector, instead of more expensive and lower quality training services from the public sector AmuGruppen. The LANs had been given such directives already in the reform of 1986, but the National Audit Bureau found

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[16] Swedish National Audit Bureau. *Effektivitetsproblem i arbetsmarknadsutbildning.* [Efficiency Problems in Employment training]. F 1992:15, RRV Dnr 23-91-0295. Stockholm: Riksrevisionsverket. 1992.

[17] This 'surplus' is not to be confused with corporate profit, a distinction missed by the initial management of AmuGruppen AB after the reform of 1993, as is discussed below. The accounting was initially not consistent with corporate accounting standards.

[18] This 'profit sharing' or 'incentive' payment was an effort by the management of AmuGruppen to implement a corporate style incentive system to reward personnel for good performance. It was also intended to give a signal: this is a new, professional, corporate-oriented organisation. This payment, however, was heavily criticised both in mass media and in the National Labour Market Board as an improper use of taxpayers' money.

[19] Swedish National Audit Bureau. *Effektivitetsproblem i arbetsmarknadsutbildning.* [Efficiency Problems in Employment training]. F 1992:15, RRV Dnr 23-91-0295. Stockholm: Riksrevisionsverket. 1992.

that in some LANs, tendering procedures have not always followed good commercial practice. Tenders were sometimes not requested from several suppliers; sometimes, private suppliers had not been allowed to tender.[20]

3.2.5 From an education culture to a training culture

One of the most difficult problems of the reform of 1986 was to break through the 'educational culture'. Improving external efficiency by tightening the link with industry and becoming more market oriented was one of the aims of the reform of 1986. Such a transition required personnel at all levels to change perspectives, attitudes, and behaviours. It was not easy for the teaching staff, especially those who had come through the formal teacher training system, to see themselves in new roles, with responsibility for marketing themselves and their courses through contacts with industry. The new role was more natural for those who had come from industry.

Prior to the reform, when employment training was carried out under the operational management of the National Board of Education, instructional personnel were employed as 'teachers', under a collective agreement with the national teachers' union. Under this agreement, persons lacking formal teaching qualifications received lower pay than those who had formal teaching qualifications. Some 25% of Amu's instructional staff at the time lacked formal teacher qualification, although they had substantial industrial experience that formally qualified teachers usually lacked. In practice, the salary scale in the collective agreement discriminated against those with industrial experience.

The conflict between the old and the new was so fundamental that it was bound to carry over into the collective bargaining process. As long as this pay scale was applied to all instructional personnel, no resolution could be found. As a compromise, two separate salary scales were implemented. All instructional personnel were free to choose between two scales, identifying themselves as 'teachers' and following the teachers' salary scale, or identifying themselves as 'instructors' and following a salary scale for office workers. If they chose to identify themselves as teachers, they continued on the teachers' salary scale, in which formal teacher qualifications carried a special premium.

As teachers, their working day was finished when they had completed their teaching obligations. If they chose to identify themselves as instructors, they went over to the instructors' salary scale, in which formal teacher qualifications did not carry any special premium. In return, instructors were expected to work normal office hours, which meant a longer working day for instructors than for teachers. When they were not teaching, the teachers could go home, but instructors were expected to attend to other duties, such as having contact with clients, marketing, and development of new products (courses).

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[20] Ibid.

Since the instructor scale was non-discriminatory, it was clearly the more favourable scale for those who lacked formal teacher qualification. Even those who had formal teacher qualifications could increase their monthly salary. For both categories of personnel, however, higher pay was tied to longer working days. In 1986, therefore, large numbers of trainers with formal teaching qualifications chose to continue to identify themselves as teachers. Gradually, however, even formally qualified instructional personnel went over to the instructor scale, and, in 1991, the teachers' scale was phased out.

Within a few years, recruitment policy strongly favoured employment of 'instructors', rather than 'teachers'. By the turn of the decade, some 50%-60% of the instructional personnel were 'instructors'. In order to promote the necessary changes brought about by the reform of 1986, much effort was put into training personnel in educational methods, economics, and commerce. Internal pedagogical training was particularly important because of the shift among instructional staff from 'teachers' to 'instructors'. Remaining up-to-date in technological developments was also important. Every other year, all instructors were obliged to return to industry for a period of time in order to refresh and update their knowledge and skills and learn the latest technologies. In some cases it was difficult to find suitable places, but the industry refresher period remained a firm requirement.

One of the aims of the 1986 reform was to open the supply of employment training to market forces. In practice, however, AmuGruppen did not have the free hand that it needed in order to be competitive. As the county labour market boards became more business minded in their training procurement, AmuGruppen was at a disadvantage because it still had to follow directives from the National Labour Market Administration, which were not necessarily consistent with profit-making decisions. At the same time, as long as AmuGruppen was a state agency, private sector training organisations perceived that Amu had unfair advantages, and this hindered the development of an employment training market.

During the latter years of the agency period, AmuGruppen built a personnel and material capacity based on the high volume that prevailed during those years and that was expected to continue into the future. This capacity included an extensive equipment park. Employment training volume was high, and Amu's full-time personnel reached an all-time high during the 1991/92. The aim was to prepare for future growth, and perhaps even to strengthen the organisation as it headed into the next phase of the metamorphosis, the corporatisation. The best laid plans, however, have a tendency to go awry.

3.3 The reform of 1993: from agency to corporation

3.3.1 The parliamentary debate

During the period September 1991 - September 1994, under a centre-right coalition government led by the Conservative Party, a number of state agencies were corporatised[21]. The aim was to bring competitive market forces into play in order to promote greater efficiency. From the demand side (the point of view of the citizen needing public services), the change was small. Public services were still public services, although in many cases fees were introduced or raised. On the supply side (the point of view of organisation and management), however, the change was enormous.

In July 1992, the government established a committee for AmuGruppen's corporatisation[22] to consider two alternative organisational forms: a single corporate concern with regional subsidiaries; and a decentralised organisation with regional and local ownership. A second main task was to propose a new organisation, which could offer employment training based on local labour market demand throughout the country *in such a way as to enable a future privatisation*. The committee recommended a single corporate structure as the most suitable for restructuring. The committee expected that the trend toward declining employment-training market shares, which Amu had experienced since the 1986 reform, would continue after corporatisation.

The committee also recommended a two-stage approach to privatisation. In the first stage, a substantial restructuring of AmuGruppen was necessary in order to make it into an efficient organisation. Secondly, it further recommended at some point in the latter half of the 1990s revisiting the issue of whether the training market had developed far enough to allow privatisation of the whole of AmuGruppen.

In February 1993, Parliament voted to establish the national training *corporation* AmuGruppen AB[23]. As of 1 July 1993, AmuGruppen AB and a number of subsidiaries were established. The aim of AmuGruppen AB was to offer labour market education and training of high quality throughout the country. The concern could also more easily offer company training. As much as was possible, AMU was to operate under the same conditions as other, non-state owned training organisations. Significantly, however, during

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[21] The centre-right coalition government was formed after the election in September 1991 and lost power in the election of September 1994. The agencies corporatised included some of the very largest: the National Power Administration January 1992; the Swedish Forestry Service (*Domänverket*) July 1992; the Post Office Administration, March 1993; the National Telecommunications Administration July 1993. In the case of Amu, however, the political lines were not exactly clear-cut. One of the leading conservative figures involved in the reform of Amu was *opposed* to corporatisation and advocated forcefully (but not quite convincingly enough) for a decentralised *municipally* owned structure with linkages to municipal adult education.

[22] Ministry of Labour. *Ett hav av möjligheter: AMU-Gruppen på väg mot 2000-talets utbildningsmarknad.* [An Ocean of Opportunities: AmuGruppen on the Way to the Training Market of the 21st Century]. Stockholm: Ministry of Labour. 1992.

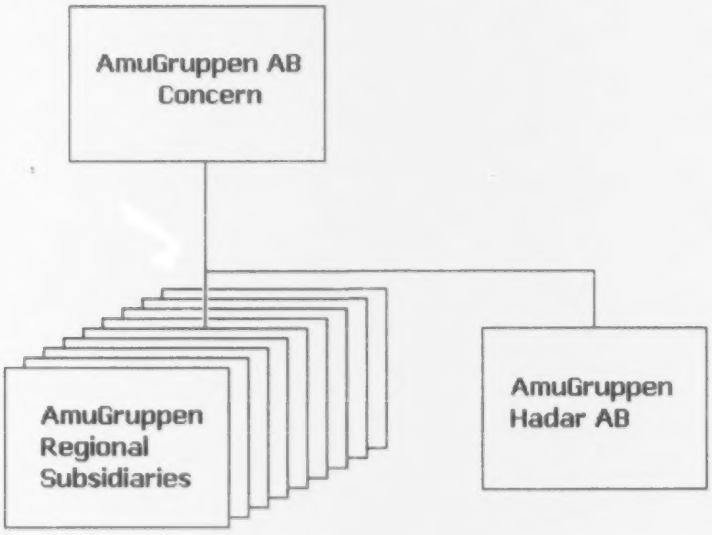
[23] Proposition 1992/93:152, AU6, rskr 175.

the Parliamentary debate, it was stressed that the state, as owner of AmuGruppen, '*should play an active owner role and take responsibility for the continued development of the company*'.

3.3.2 Initial organisation and management of AmuGruppen

Beginning on 1 July 1993, the central Amu agency office was transformed into the AmuGruppen corporate concern, and the 23 county agency offices were transformed and merged into nine regional subsidiaries plus a tenth company, *Hadar*, which has the special task of developing computer support for functionally handicapped persons. The subsidiaries were in turn organised into market areas, often representing a county. By mid-1996, AmuGruppen had 34 market areas and 135 fixed training facilities throughout the country. The organisational structure was relatively simple, as shown in Figure 13.

Figure 13 Organisation of AmuGruppen in 1996



3.3.3 Cost commitments from the agency period and the past

Since it was anticipated that Amu would continue to lose employment training market share, it was expected that, in staffing the new corporation, downsizing would be needed, and 2 100 persons were *not re-employed* after termination of the agency. For those who were not re-employed, a special state committee for the management of downsizing, *Avveckling* ('termination', literally 'de-development'), was established and took over employer responsibility for the one-year termination notice period. In this way the new corporation was allowed to begin operations without carrying the burden of redundant personnel from the agency period. *Avveckling* ceased operation after 1½ years when settlement was reached with the last of the redundant personnel.

Some cost commitments could not be escaped. From before the 1986 reform, long-term leasing contracts had been signed for instructional premises. In the final years of the agency period, substantial investments were made in machines and equipment. Both these commitments could be seen in retrospect to have been substantially over-dimensioned. What had been lacking in the commitment decision made during the agency period was a *business perspective*. There were too many good ideas and too little profit in what should have been seen as rentable business investments. These decisions from the past had costs that had to be paid from current revenue.

Despite the decline in the volume of employment training in the first year, the profitability of AmuGruppen *appeared* to be relatively good, but problems were endemic. During the latter years of the agency period, AmuGruppen had built up a personnel and material capacity based on high volume that prevailed during those years. The personnel increased from 3 600 at the time of corporatisation in mid-1993 to a peak of 5 200 in mid-1995.

What happened then, in the world outside AmuGruppen, was to have near fatal consequences for AmuGruppen. An economic recession, unemployment rates far above traditional levels in Sweden, and a growing government budget deficit led to a sense of urgency in organisation and management of a broad range of public services.

3.3.4 Appointment of the managing director

Management of a state agency and management of a corporation are different. Although Amu had substantial operational autonomy during the agency period, it was at the same time both hindered from operating competitively and protected from competition. That would all change with corporatisation, and it would be the responsibility of the managing director, appointed by the board of directors, to manage the change.

In preparation for the constitution of the governing board in July 1993, the top management of Amu prepared for the future governing board a list of qualifications the managing director should have. One of the key qualifications listed was experience in leading a large corporation. When AmuGruppen AB was formed in July 1993, however, the new AmuGruppen governing board selected a managing director with a strong political background but no experience in management of a large corporation. The governing board itself was heavily weighted toward political representation. The first managing director sat until 1995, when he was replaced by an acting managing director who sat until November 1996.[24] During this period, from July 1993 until November 1996, little re-structuring was done, and that which was done did not follow good corporate business lines of development.

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[24] For several months there were essentially two parallel governing boards. One was the formal governing board of the 'Amu the agency', and the other was an 'interim governing board' preparing for the formal transition to 'Amu the corporation' as of July 1. Source: Internal communication.

3.4 Recent developments in the employment training market

3.4.1 New actors and new markets

The corporatisation of AmuGruppen had, as anticipated, the consequence of stimulating the growth of a private sector training market. The long term trend in market shares is shown in Table 12 and displayed in Figure 14. At the beginning of the decade, at the middle of the agency period, AmuGruppen was by far the largest actor on the employment training market with almost three-quarters of the participants. Even before corporatisation, however, Amu's market share had fallen to about 50%, and the trend has continued unabated.

Table 12 Shares of participants in employment training 1989/90-97 (%)

Provider	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1996	1997
AmuGruppen	74	69	55	52	41	36	35	29
Municipal adult education	10	12	15	14	10	8	7	1
Upper secondary education	6	4	5	3	3	2	1	5
College & university education	1	1	1	1	1	1	1	1
Private training providers	7	9	18	22	37	45	48	58
Popular education	2	4	6	8	9	8	8	6
Total	100	99	100	100	101	100	100	100

At the beginning of the decade, three other groups of actors shared the remaining market about equally – municipal upper secondary education, regular upper secondary education, and private training organisations. By 1997 private training providers had taken almost 60% of the market, and AmuGruppen had nearly 30%. The market shares of all other providers were marginal. The responsiveness of the private sector had been demonstrated.

In the beginning of the corporation period, there were only a few small private training providers, but the number increased rapidly. While there are no reliable national statistics, an example can be indicative. '[In the beginning of the corporation period, in] Bergslagen [central Sweden] there were only 3 or 4 competitors AmuGruppen was worried about, but by 1995 there were some 40!'[25]

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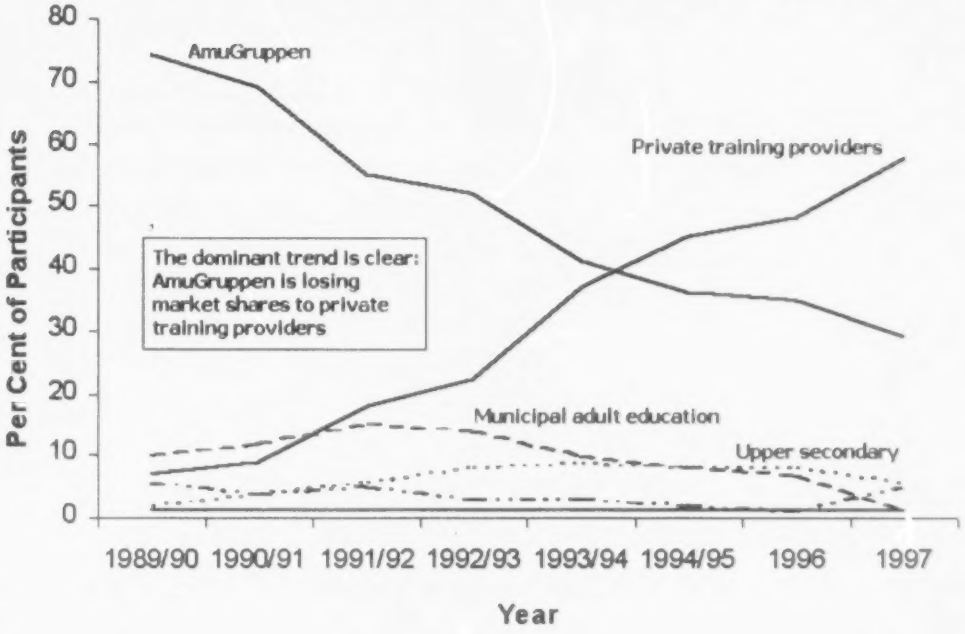
[25] Kerstin Lööv. 'Marknadschef – ett tufft men roligt jobb'. *Skolledaren*. [Head of Marketing – a Tough but Enjoyable Job. *School Leader*]. 10:4-6, 1995.

Figure 14 Shares of participants in employment training 1989/90-97



An important aspect of the economics of this change can be understood by noting that *the competitors were often former Amu instructors who had been made redundant by the downsizing process*. Throughout the country, many former Amu instructors started their own training firms in competition with their former employer. Typically these firms were quite small and served only the local market. The management of these small firms lived and worked in the local community, and they knew the local labour market well. Because they were small they could also be very flexible and quickly respond to changes in local demand.

There was another factor too: these small firms had very low overhead costs. They often had neither equipment nor training premises. That, it turned out, was not an important hindrance. One reason was that it was more cost-effective to acquire the needed physical resources in other ways as needed for the moment, thus avoiding long-term cost commitments. A second reason, however, was that the labour market itself was changing. New technologies and new markets were placing a growing demand for persons with general computer skills and communications and management skills, while the demand for technical skills was declining. Training for such skills requires relatively little physical resources.

At the time of corporatisation, there were a few relatively large private sector training organisations, but even these were dwarfed by AmuGruppen. AmuGruppen's turnover in 1993/94 was estimated at SEK 3 300 million. The biggest private sector providers were an order of magnitude smaller, as suggested by the 1994 turnovers: Competentia

SEK 200 million; Lexicon SEK 150 million; Eductus SEK 118 million; and MGruppen SEK 80 million.[26]

3.4.2 AmuGruppen faces the new millennium

Actual restructuring costs were lower than estimated in late 1996 partly because turnover was some 13% higher than anticipated in 1997, and partly because cost reduction efforts bore fruit more quickly than anticipated. Total costs were cut by nearly 50% during the period 1995-97. This dramatic cost reduction was largely the result of an equally dramatic reduction in personnel from 4 800 at the beginning of 1996 to 2 000 at the end of 1997. This was the human face of downsizing. The downsizing paid off, however: although no operating profit was anticipated for 1997, an actual profit of SEK 67 million[27] was achieved. Further, a profit of SEK 30 million was achieved in 1998.[28] This could lead to some optimism about the future of the company.

Since corporatisation, AmuGruppen has experienced minor restructuring several times. With the arrival of a new managing director, however, a comprehensive corporate restructuring programme was begun. The programme comprised five overlapping stages. The first stage involved re-organisation. A new organisation, shown in Figure 15, came into effect 1 March 1997. This structure is based on business areas instead of regional areas. There was a small central staff (strategic planning and management; administration) and five main business areas. Some of the business areas have a wide national coverage in a decentralised structure. Others are largely concentrated to major urban areas.

The second stage of the reform programme involved supporting job placement for the redundant personnel (1 265 persons). The third stage involved the development of a commercial culture and commercial practices throughout the organisation. The fourth stage of the reform programme involved the development of expertise in the organisation. The retrenchment of the 1990s led to the loss of a substantial number of persons with higher education degrees. One of the major objectives for the next few years is to achieve a better spread of age and a better pool of expertise. The fifth stage of the reform programme involved business development. One such step in the process was the establishment of a new subsidiary 'NU! Personaluthyrning AB' (literally 'Now! Personnel for hire').

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[26] Anders S. Fröberg. 'Tre 'sfärer' tar över utbildningsmarknaden'. *Personal – Människan och arbete*. [Three 'Spheres' Take over the Training Market. Personnel – People and Work]. 2:12-13. February 1994.

[27] AmuGruppen. 'Årsredovisning 1996' [Annual Report 1996]. Stockholm: AmuGruppen. March 1997. p. 5.

[28] AmuGruppen. 'Årsredovisning 1998' [Annual Report 1998]. Stockholm: AmuGruppen. March 1999.

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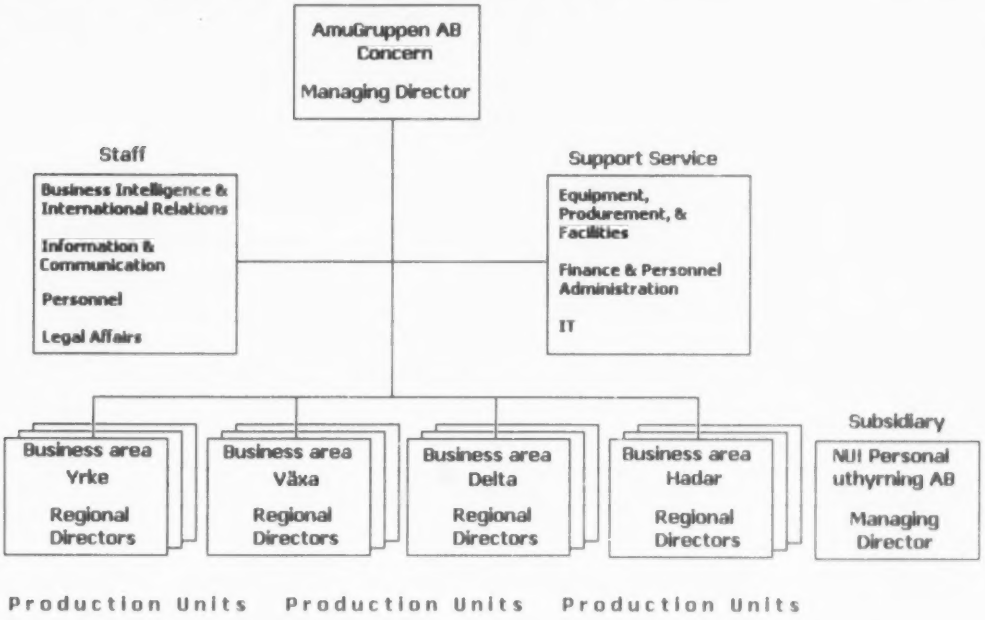
Figure 15 Organisation of AmuGruppen in 1999



The business area *Yrke* ('occupation') aims to help increase competitiveness among both individuals and companies by raising competence through qualified vocational and professional education and training. AmuGruppen Yrke is by far the most competent and experienced provider of such education and training, and can serve most branches of trade and industry and most occupations. *Yrke's* serves at two somewhat different markets: (a) *In* work, which aims to raise competence for those who are already employed; and (b) *To* work, which is intended for those who are unemployed. The company has a regional structure, with the regional organisation corresponding closely to the county labour market boards. In addition, *Yrke* has some international operations under the name of 'Amu International'.

The business area *Växa* ('to grow') aims to help strengthen the general competitiveness of individuals. Courses include basic labour market orientation in tomorrow's world, special courses for youth and immigrants, with heavy emphasis on IT, entrepreneurship development, language, and other courses designed to support general labour market competence. *Växa* has representation throughout the country.

The business area *Delta Verksamhetsutveckling* (literally 'to participate' + 'activity' + 'development') offers training within the following areas: (a) quality; (b) environment; (c) IT; (d) economy; (e) individual and organisational development; and (f) productivity.

The subsidiary Hadar (*Handicapp, datorer, arbet, och rehabilitering*. Handicap, computers, work, and rehabilitation) aims to create new work opportunities for people with functional impairment.

The AmuGruppen subsidiary *Nu! Personal uthyrning* (Now! Personnel for hire) aims at providing industry with specialised personnel, especially highly qualified technical personnel, on a temporary basis. This development could be a way preserving the value of the competence network that Amu needed for its training operations while at the same time achieving higher flexibility usage of human resources, as suggested by recent experience[29].

Despite the restructuring, AmuGruppen is still a nationwide organisation and the most well-known training organisation in Sweden with a long record as a very valuable asset.

3.5 Economic performance: from crisis to sustainability?

3.5.1 The financial crisis of 1996

At the beginning of November 1996, a new managing director with substantial business management experience, including responsibility for restructuring a large corporation, took over.[30] This was exactly the kind of experience AmuGruppen needed, partly because the restructuring needed following corporatisation was not completed, and partly because a change in labour market policy was underway. Government expenditure on employment training was in sharp decline.

Rising unemployment in the mid-1990s, going beyond all bounds of previous experience in the post-war period, inevitably placed severe strains on the government budget for counter-cyclic labour market measures. Even as preparations for corporatisation were under way, the volume of training provided by the agency AmuGruppen declined by nearly 50% from November 1992 to June 1993. This was due in part to the changing policy mix (e.g., a shift to work introduction programmes, youth programmes and relief work) and partly to the loss of market share. During the latter years of the agency period, Amu's share of the employment training market fell from 80% to 50%.[31] To some extent Amu was able to compensate for loss of market share in employment training by increasing its share of the corporate training market, but corporate training was also at a low at the time of corporatisation.

Shortly after the new managing director took office in November 1996, a political decision was taken to further reduce the flow of resources to employment training. In one of his first acts, the managing director immediately ordered preparation of a balance sheet for liquidation, in accordance with good corporate business practice when there is a danger that the company is insolvent. The liquidation balance sheet estimated that in order to

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[29] AmuGruppen. 'Årsredovisning 1998' [Annual Report 1998]. Stockholm: AmuGruppen. March 1999. p. 4.

[30] The appointment was made in July 1996, but due to prior commitments the new managing director began first November 1, 1996.

[31] AmuGruppen. 'Siffror. AmuGruppen Årsredovisning nittonhundra 93/94'. [Numbers: AmuGruppen's annual Report, 1993/94.]. Stockholm: AmuGruppen. 1994. p. 11.

avoid bankruptcy, the owners (the state) would have to inject new capital in the amount of up to SEK 600 million (ECU 67 million). The report was submitted to the government.

In the parliamentary debate that followed, questions had been raised about the salary levels of management personnel. In connection with the preparations in the parliamentary Labour Market Committee it was decided to propose to Parliament that an audit be conducted by Parliament's auditors to examine AmuGruppen AB.[32] The aim of the audit was to analyse the background to the emergent liquidity crisis up to the end of 1996. The parliamentary audit pointed out lack of management and a need to follow market development. The cost of reducing personnel and premises was estimated in December 1996 at SEK 780 million (ECU 88 million). In a report approved by Parliament, the Labour Market Committee recommended Government's proposed addition of new capital.[33] Government then reported its position on the future operations of AmuGruppen.[34]

Although the audit findings are not in question, two modifying comments need to be made. First, the spark that started the fire was the government's decision to drastically cut employment training made only a few days (or even hours) before the liquidity balance sheet was ordered. Second, warning signals about the direction the company finances were heading in were visible quite early after corporatisation, but the signals were ignored by the politically appointed management.

3.5.2 Injection of new capital

In the proposition sent to Parliament, it was established that an extensive downsizing of labour market education and training was necessary.[35] High unemployment and the resultant pressure on the public budget forced the reduction of the more expensive labour market measures and expansion of the less costly measures. In some cases this change in the mix of labour market measures occurred even in the face of lower efficiency of the less costly measures.

In the proposition, the judgement was made that a dramatic cost reduction was necessary[36]. It was clear that current high costs in combination with dramatically reduced revenues would lead to an acute liquidity problem by the end of 1996 if measures were not taken. The bill proposed that, in accordance with the results of the liquidity balance sheet, the government should be given authority to spend up to SEK 600 million as a capital injection or other measures, to strengthen Amu's financial base. Government indicated to Parliament that it would soon submit a plan for long term solution for the company's operations.

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[32] 1996/97:RR8.

[33] 1996/97:AU6, rskr. 108.

[34] Skr. 1996/97:95.

[35] Proposition 1996/97:55. 'Kapitaltillskott till AmuGruppen AB'. [Capital Injection to AmuGruppen].

[36] Ibid.

In December 1996, Parliament decided in favour of the SEK 600 million capital injection, and for the budget year 1997/98 an owner's capital injection of SEK 600 million to cover committed costs. By the end of 1997, it could be reported that the actual restructuring cost for 1997 was SEK 318 million, of which SEK 165 million was related to personnel costs and SEK 153 million was related to premises.[37] The remainder of the SEK 600 million was not drawn down.

The capital injection from the state could be viewed as giving Amu an unfair advantage at the market. Against this charge, Amu defends itself:
'The necessary downsizing costs are higher than the capital injection, so that AmuGruppen is compelled to contribute its own capital in order to implement the downsizing. There is simply no financial space for dumping any prices, i.e. selling below real costs price. AmuGruppen's clear principle is that every business deal should bear its own costs and yield a reasonable surplus. The owners' demand for returns is 5% of turnover. This is relatively high compared to other state corporations.'[38]

3.5.3 Financial statements 1994-97

The most recent financial summary, covering years 1994-99, is shown in Table 13. The first annual report covered the 18-month period 1 July 1993 – 31 December 1994, and subsequent periods covered the calendar year.[39] Key indicators are shown in Table 14.

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[37] Ibid. p. 4. The relative magnitude of this capital injection can be seen by noting that SEK 600 million is just under 50% of AmuGruppen's total assets in 1995, as shown in Table 13 below.

[38] AmuGruppen. 'Årsredovisning 1996' [Annual Report 1996]. Stockholm: AmuGruppen. March 1997. p. 10.

[39] The figures given in Table 13 are based on corporate accounting law. Figures for the period prior to 1994 are not fully consistent with corporate accounting practices and the figures given here represent a reconstruction of the original figures. This is not the place to discuss definitions in corporate financial summaries, but it should be noted that the bold lines in Table 13 all represent summations except Profit/Loss for the Financial Year, which represents a progressive construction, from profit/loss before reconstruction costs, then including reconstruction costs but before financial items, and finally including both reconstruction costs and financial items.

Table 13 Financial summary for AmuGruppen, 1994-99 (SEK million)

Profit and loss account						
Turnover	3 380	3 089	2 542	1 870	1 870	1 931
Of which, employment training	2 727	2 376	1 900	1 314	1 293	1 332
Operating profit/loss before reconstruction costs (+/-)	140	16	-3	53	17	2
Operating profit/loss (+/-)	93	-148	-651	31	17	2
Operating profit/loss after financial items (+/-)	101	-112	-582	67	30	6
Profit/loss for the financial year (+/-)	**71**	**-89**	**18**	**67**	**30**	**6**
Balance sheet						
Fixed assets	373	345	269	199	196	151
Current assets	489	428	628	359	388	354
Liquid funds and investments	468	478	755	859	177	128
Total assets	**1 330**	**1 251**	**1 652**	**1 417**	**761**	**633**
Shareholders' equity	435	311	329	396	404	388
Pension provisions	358	344	349	429	-	-
Other provisions and liabilities	537	596	974	592	357	245
Total shareholders' equity, provisions, liabilities	**1 330**	**1 251**	**1 652**	**1 417**	**761**	**633**
Gross investments						
Property	8	1	0	0	0	0
Computers	78	36	18	28	52	20
Other	85	38	13	12	33	27
Total investments	**171**	**75**	**31**	**40**	**85**	**47**
Other						
Average number of employees	4 847	4 892	3 997	2 888	2 312	2 459

Source: AmuGruppen AB. Annual Report. AmuGruppen AB 1997. English version. Stockholm: AmuGruppen AB. March 1998.

The overall story in financial statements is often open to different interpretations, especially if the numbers show turbulence. This is the case with AmuGruppen's 1998 and 1999 annual reports. It is clear that 1995 was a horrible year, 1996 was bad, and 1997 was back in business, but the 1997-1999 trend looks bad. Fixed assets fell continuously, which was healthy in light of the problems AmuGruppen had. Meanwhile liquid assets and investments rose through 1997, and then fell.

Parts of the picture are bleak, however, as can be seen from some of the key indicators given in Table 14. Between 1994 and 1997, total turnover fell by almost 45%, and turnover in employment training fell by over 50%. In fact, the decline accelerated over the period. Productivity, as measured by total turnover per employee, in the organisation fell dramatically in 1995, although it rose again in 1996 and 1997, and then rose dramatically in 1998 and declined slightly in 1999, as shown in Figure 16 below.

Table 14 Key indicators for AmuGruppen, 1994-99 (SEK million)

Financial Indicators						
Operating Margin	2.8	-4.8	-25.6	1.6	0.9	0,1
Profit margin	3.0	-3.6	-22.9	3.6	1.6	0,3
Added value ratio	48	52	52	50	48	49
Remuneration intensity	94	99	100	97	98	100
Turnover per employee (SEK thousand)	697	631	636	648	809	784
Year-end turnover per employee (SEK thousand)	Na	579	611	788	808	766
Profit per employee (SEK thousand)	20	-23	-146	23	13	0,4
Return on total capital	10.3	neg	neg	5.3	3.6	1,1
Return on capital employed	29.2	neg	neg	10.8	6.2	1,9
Return on shareholders' equity	20.7	neg	neg	18.5	7.8	1,5
Equity/assets ratio	33	25	20	28	53	61
Cash liquidity	102	83	129	146	149	185
Other Key Indicators						
Profit as % turnover	2.1	-2.9	0.7	3.6	1.6	0,3
Training as % total turnover	80.7	76.9	74.7	70.3	69.1	69,0
Turnover index (1994 = 100)	100	91	75	55	55	57
Employment training turnover index (1994 = 100)	100	87	70	48	47	49
Average number of employees index (1994 = 100)	100	101	82	60	48	51

Notes:

Operating Margin: Operating profit after depreciation, as % invoiced sales.

Profit margin: Profit after net financial items, as % invoiced sales.

Added value ratio: Turnover minus costs of purchased goods and services, as % invoiced sales.

Remuneration intensity: Wage and salary remuneration and associated costs as % added value.

Turnover per employee: Annual turnover divided by number of employees.

Year-end turnover per employee: Turnover calculated on December volume; number of employees.

Profit per employee: Operating profit/loss after financial items divided by number of employees.

Equity/assets ratio: Shareholders' equity as % year-end balance sheet assets.

na: Not available

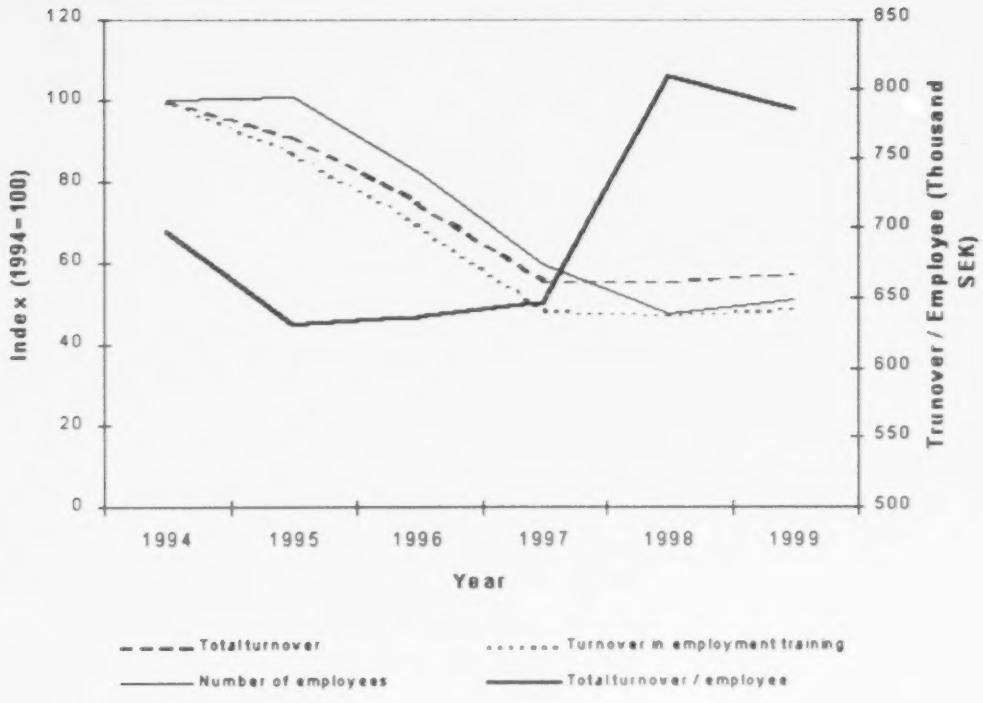
neg: Negative (not reported)

Shaded fields were negative and not reported but estimated by the author from the data in Table 13.

All ***Other Key Indicators*** were calculated by the author from data given in Table 13.

In a downsizing organisation seeking to become leaner and meaner (or at least leaner and more productive), year-end productivity is a better indicator of the direction developments are taking. This shows a progressive rise from 1995 through 1997. The end-of-year productivity is particularly high compared with the year average for 1997 (788 compared with 648), which shows that productivity was rising during the year, but the 1999 result showed a decline to below the 1997 level.

Figure 16 Turnover, employees, and turnover/employee



For the present (May 2000) there is no question of privatising AmuGruppen in the near future. This of course begs the question of whether or not it would be possible to find an interested buyer of the employment training business, as to opposed merely buying machines and equipment at bargain prices. It may be that no single buyer could be found for the national training business as a whole, but that buyers could be found for some selected parts of the business. But business judgements vary, and there is some reason to believe that there could be private sector parties interested in acquiring the whole business.

Meanwhile other actors on the training market have also been badly hit by the decline in funding for employment training. The market is over-established. A scenario involving one or a series of mergers is plausible. Further, new education and training markets may emerge (see below), and new education and training technologies and products may be developed. Amu's future depends in large measure on its business and entrepreneurial ability to see new opportunities and take advantage of them.

At an earlier stage (prior to the corporatisation) there was discussion about making the municipalities the owners of the new training corporation. Everyone understands now, however, that it is unrealistic to envisage a large number of small municipal training corporations. Cost levels would make such an organisation unsustainable.

3.5.4 Efficiency and effectiveness in labour market measures

Hard competition within the market for employment training has led to a dramatic reduction in unit costs in various market segments. The total cost for a training place fell by about 50% during the five-year period centred on the 1993 reform. Productivity in procured employment training has increased dramatically during the 1990s, especially during the latter half. The main driving factor was the greatly reduced length of the training courses. This was made possible through individualisation based on modern instructional techniques (e.g., interactive instructional and distance education and training using IT) and new work forms. In addition, individual course plans have been used to tailor the courses to the specific needs of the individual and advances in automation and IT development have reduced the need for workers with traditional skills but lacking IT competence.

The National Labour Market Board regularly carries out a study of the relative effectiveness and unit costs of all business cycle related labour market policy measures. Follow-up data are collected and analysed. The study investigates the proportion of persons in employment 30 days, 90 days, and 180 days after completion. In Table 15, representing 1997, the various main labour market measures are sorted by effectiveness, as measured by the proportion of beneficiaries in employment after 180 days. According to this study, there is great variation in the degree of success in job placement and retention.

The most effective labour market measures are clearly those most closely linked to the world of work. The 'Start Your Own Business Subsidy' appears to be most effective, although considering the relatively large proportion of new businesses that fail within a year or two, its effectiveness may be over-estimated. According to these figures, employment training occupies a median level of effectiveness – after a half-year, fewer than a quarter of the participants are employed.[40]

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[40] AmuGruppen's own follow-up studies suggest *much* higher placement levels, as discussed below. The differences can be attributed to differences in methods and possibly bias.

Table 15 . Effectiveness and costs of labour market measures 1997

Start Your Own Business Subsidy	76.4	71.9	72.1	9 689
Recruitment Support	72.3	66.7	63.2	5 968
Temporary Training Substitute	48.0	50.5	54.7	9 600
Work Place Introduction	29.9	31.9	32.9	6 993
Municipal Youth Programme	31.7	28.0	28.2	2 473
Labour Market Education and Training (AMU)	15.4	21.1	24.6	13 940
IT Activity Centre	12.7	19.2	23.6	7 269
Relief Work	22.1	23.3	22.9	9 291
Working Life Development (ALU)	12.1	15.1	17.3	9 294
Labour Market Institute (AMI)	16.2	16.1	17.2	5 644

Source: Swedish National Labour Market Board. *Arbetsmarknadspolitiska åtgärder. Årsrapport 1997.* [Labour Market Policy Measures. Annual Report 1997]. APra 1998:2. Appendix 2. Reported in full in the Internet under the title 'Konjunkturberoende åtgärder – ett jämförande perspektiv' [Business Cycle Related Measures – A Comparative perspective]. Stockholm: AMS, 1998.

Note: Results for measures taken for handicapped persons are not included because results are measured in a different way.

3.5.5 The market for employment training today

The Swedish education and training market today is divided into two blocks. The first covers employment market education and training, financed and procured by the county labour market boards to strengthen the competence profile and in some cases provide certification for unemployed persons who seek work. The second block covers various kinds of education and training packages purchased by companies or public sector organisations with the aim of strengthening a company's competitiveness and increasing productivity.

When Amu was first transformed into an agency, other training organisations, including private sector organisations, began to emerge. This development continued when the agency was corporatised. The rationale of creating a level playing ground in order to stimulate the development of a market for employment training paid off.

The drastic reduction from 1996 to 1997 in the number of employment training places from 46 000 to 15 000, however, inevitably had a dramatic impact on the business, especially on AmuGruppen, by far the largest actor in the business. Others who had entered the market in recent years left when the market shrank so dramatically.

Nevertheless, the number of small training firms has increased, as have their market share, and Amu's market share has fallen, as shown in Table 12 and Figure 14 above.

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Furthermore, the idea of selling training services to companies seemed reasonable enough but has not worked out so well even if sales to companies grew and became a substantial portion of the total volume. This is not primarily because of competition with other training firms, but because much of the training is supplied *internally*, conducted by specialists within the firm. In addition, suppliers of new equipment often provide training packages as part of the sales support for new machines and equipment. Furthermore, Amu, with its roots as an an education organisation, has difficulties going into companies and working on company logic.

Today there are other training organisations, including private corporations, operating in the education and training market, in competition with Amu. Some are relatively large, in part because of a series of mergers after the decline in employment training in the early 1990s. Other suppliers are small, locally oriented education and training organisations with low fixed costs and low overheads. Their local knowledge, low costs and flexibility make them very competitive.

In 1997, Amu carried out a comprehensive analysis of the market in several studies; one concerned developments in industry and a second concerned developments in the service sector. Several important trends were found.[41] These trends have much in common with developments in many other European countries. First *devolution*: many public service responsibilities previously held at the national level had been, or were being, moved the level of regional and municipal government. The new regime requires large amounts of training, and the local authorities are becoming increasingly important as partners working with AmuGruppen. One relatively new market resulting from the devolution of responsibilities for schooling is the sale of technical education and training to the municipal school authorities.

Second, the *IT revolution*: the development of information technology is having a major impact on education and training. Pure IT training is growing rapidly and other kinds of adult education and training are incorporating increasing amounts of IT. During 1997/98, AmuGruppen planned to invest some SEK 200 million (ECU 22 million; USD 25 million) on improved internal and external communications. The increasing use of computer technology in training means that the price of training is falling, while the value of programmes and training concepts is rising because expensive training equipment is being replaced by computerised simulation models and classroom instruction is being replaced by workplace based approaches.

With the existing market for employment training, demand side organisations have not only the means but also a strong incentive to compare price with quality. Quality today is measured by fairly clear labour market outcomes, namely the employment rate of trainees subsequent to the training. This has led to *pricing by performance*. That is, the supplier provides a guaranteed level of successful job placement. Shortfalls are penalised financially.

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[41] AmuGruppen. 'Annual Report AmuGruppen ÄB 1997' [English edition] p. 7.

3.5.6 Other new trends

In some communities adult education, which previously had its own organisation, is increasingly being outsourced. This includes basic adult education, municipal adult education (Komvux), and Swedish for immigrants. For Komvux the main subjects outsourced, in terms of time and places, are economics, computer skills, mathematics, and foreign language. This could be a new niche market, in which Amu has already had some success.[42]

Secondary schooling is also changing, with increasing choice for students, parents, and teachers. AmuGruppen has applied to the National Agency for Education for permission to start 'free schools' (i.e., non-state but following minimum state standards) in Borås, Göteborg, Karlstad and Malmö in the autumn of 2000. These schools would have an international character, and would have a business program in which much of the instruction would be carried out in English and in close contact with business and industry.[43]

At the same time as the total volume of employment training has declined dramatically, there has been a change in labour market policy. There has been a clear devolution of power from the state to the local councils. This aspect of labour market policy is an integral part of a broader pattern of devolution of powers. This continuing trend has brought about a great change in the labour market measures applied and the way in which employment training is procured. The training market has become increasingly volatile. At the time of the reform of 1986, most training contracts between AMU and the Regional Labour Market Boards covered a 3-year period, with some short-term contracts covering a 1-year period. Since that time, the duration of the contracts has gradually decreased, and today standard contracts cover periods as short as 5 weeks. Some are shorter.

3.5.7 The impending privatisation

There is little doubt that AmuGruppen faces privatisation. The important questions are 'how' and 'how soon'. In the Proposition of 1997/98, the Government's position was clarified: 'If the business cannot be operated economically, it should be liquidated.'[44] The implication is clear: although employment training itself is important, the training *business* does not have such a high value that it should be given substantial budget support through AMS, it does not have a strong commitment to managing the training business. In other words, the Government has a strong commitment to expressing the *demand* function but little commitment to expressing the *supply* function.

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[42] Sesam, Nr 1/99. http://www.amu.se/koncern/nyhetsbrev/artikel1c.htm. AmuGruppen. See also 'Annual Report AmuGruppen AB 1998'.

[43] Sesam, http://www.amu.se/koncern/nyhetsbrev/artikel3a.htm, 1999-08-12.

[44] Motion to Parliament 1997/98:1 Budgetpropositionen [Budget Bill]. October 5, 1997.

It is unlikely that AmuGruppen as a state owned corporation would survive a non-social-democratic government. Already in October 1997, the Conservative Party submitted a motion to Parliament proposing privatisation:

'The same rules should apply for AmuGruppen AB as for its competitors – both existing and potential. The same financial condition should also apply. As long as the state remains as owner of AmuGruppen AB, there is always the risk of imperfect competitive neutrality. This applies especially as the state itself is the largest customer on the market in question. ... A winding up of the state ownership, through gradual sale of either the whole company or parts thereof, would increase competition to the advantage of the development of the training market. ... In connection with privatisation, the possibility of sale to the employees should be given special attention.'[45]

3.6 Conclusions

One aim of this concluding chapter is to provide some analysis of the evolutionary development. In this discussion, there is no analysis of the relative positions of the political parties. The reforms of Amu were not major political issues and the parliamentary discussion appears in the documentation not to have been intense. Indeed, it could be argued that Amu was a game piece in a larger political power play. We will not elaborate on this theme, however, because it is not in itself relevant to the essential lessons to be learned for organisation and management of employment training. Rather, the discussion will focus on some more general policy issues with political content.

First, why did the 1986 reform change Amu into a state agency instead of a state corporation? Second, once a decision was made in the 1993 reform to change AmuGruppen into a state corporation, why did the board of directors appoint as corporate leader a person without experience in corporate management? Third, what role has the state had as owner of AmuGruppen during the corporate period?

Finally, some conclusions are drawn about the larger questions. What has happened to the quality and cost of employment training? What is AmuGruppen's position on the market today, and how is it likely to change in the future? Ultimately, is it better to have a *national public training system* or to have a *training market*?

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[45] Motion to Parliament 1997/98:A253. Privatisering av AmuGruppen AB [Privatisation of AmuGruppen AB]. October 5, 1997.

3.6.1 Lessons learned: the politics of reform

It might seem a logical progression: from government department to state agency to state corporation (and maybe to private corporation). The stated aim of the 1986 reform, however, was to utilise competitive market forces to achieve greater efficiency in the supply of employment training services. The initiative for the reform came from top management in the department, and the initial internal proposal was for corporatisation. The proposal placed before Parliament, however, was for the agency form.

In other words, while aiming at utilising market forces, in the event, the government did not have enough confidence in market forces to allow AmuGruppen to be managed as a true market actor. Even if AmuGruppen had more autonomy during the agency period than during the department period, it was not free from bureaucratic control. Amu's development of marketing material, for example, led to a dispute with the Department of Labour over the propriety of using taxpayers' money for advertising. When a form of profit sharing was introduced to boost incentive (usually regarded as a progressive move in the private sector), the Director General was hotly criticised both in the mass media and within the Department of Labour.

The accounting system during the agency period was not consistent with corporate accounting practices, since AmuGruppen was not a corporation. This made it impossible to make business decisions on the same grounds as private sector suppliers made. Thus the playing field *could not* be level, even if management had wanted to make it level.

In retrospect, it must be concluded that the agency period was probably a mistake. Business decisions were discouraged by the interference of the Ministry of Labour, *because it was not really a business*. Decisions that should have been made on business considerations were made on other considerations *because it was not a business management*. For the same reasons, the agency period did not lead to the restructuring needed to corporatise. It did not turn out to be a business structure.

If there is a lesson to be learned, it is probably that if *corporatisation* is the medium term goal for the transformation of a ministry department of employment training, then *an autonomous agency form should not be viewed as an intermediate station for purposes of restructuring or otherwise preparing for corporatisation*. This is especially the case if the agency is not given realistic conditions under which to operate.

3.6.2 Appointment of the first managing director of AmuGruppen AB

The Swedish state as the sole shareholder of AmuGruppen AB elects all members of the governing board. The governing board, in turn, selects the managing director. Although AmuGruppen is 100% state owned it is established and must operate under corporate law. The intention of the 1993 reform, and indeed the 1986 reform, was to improve efficiency by exposing employment training to competitive forces. AmuGruppen had to operate and

survive in a competitive environment. AmuGruppen had become a business, and it had to operate in a businesslike manner.

The governing board is obliged by *corporate law* to serve the interests of the shareholders. It appears not to have exercised that responsibility. Instead of appointing an experienced corporate leader as managing director, it appointed – against the expressed will of top Amu management – a political leader, i.e. one appointed due to his political affiliation, and inexperienced in corporate leadership. It was a *political* act. It is difficult to find a *post-hoc* justification for this first and most important decision for the governing board of the new AmuGruppen AB. The consequences for AmuGruppen seem to have been predominantly negative. It delayed the already long overdue restructuring needed to make Amu into a viable corporation and the establishment of good business practices in Amu management. Had it not been for the massive capital injection in 1997, the company would have gone bankrupt.

If party politics alone is insufficient to explain the appointment of inexperienced directors, then a second interpretation lies close at hand. According to this interpretation, private sector business-like thinking was not to be trusted to carry out the appropriate restructuring of Amu, with appropriate respect for the human dimensions and the regional political dimensions. Its business development had to be steered politically, perhaps because members of the board of directors perceived that Amu must serve not only business aims but also political aims. Here, whether by intention or by accident, the 'active owner role' of the state intruded on what should have been a business decision.

If there is a lesson to be learned, it is probably that *once corporatisation is a fact, the top management position should be placed in the hands of a competent business leader*. The majority of representatives on the governing board should have solid business experience and strong enough integrity to neutralise political influence on key business decisions, including appointment of top management. Once the decision has been made to corporatise, the politicians should leave the field open to business management and reach their aims through general regulatory measures (applying equally to all suppliers) and demand-side management.

3.6.3 Planning for chaos

In describing the events above, a critical tone has been adopted. In fairness to the actors involved, it might be said that *if the world had not changed before their eyes*, the decisions might not look so bad today. At least the worst consequences might have been avoided. If it hadn't been for the economic decline beginning in the late 1980s and deepening in 1990 and 1991, the centre-right coalition might not have won the election in 1993 on a fiscal policy reform platform. Such a development was not envisaged when the 1986 reform was prepared. 'Amu the agency' might have managed to restructure itself and grow in accordance with the visions top management had in the late 1980s after overcoming the initial struggle for reform.

If it hadn't been for the continuing, and indeed growing, government deficit in the mid-1990s, confounded by historically high unemployment rates, government might never have decided to dramatically cut allocations for employment training in favour of new approaches (e.g., work place introduction; working life development). Then there might never have been a financial crisis.

It is a fact of history, however, that these changes did occur, and it seems to be a fact of life that changes are occurring more rapidly than ever before. If there is a lesson to be learned here, it is that *management of large training organisations, of whatever form, must take account of risk*, not least risk for political turn-about. Risk management is a part of management of any large business.

3.6.4 The agency as a transitional form

A necessary first step in the establishment of a training market is to separate the supply and demand functions. As long as the supply and demand functions co-exist in the same organisation, there can be no market by definition. The resources that express demand are directed by non-market forces. The autonomous agency form can make a training organisation more flexible and more responsive to labour market demand, but it is still a hindrance to the development of a training market. Thus while it can lead to higher benefits (movement of unemployed persons into employment), there is no mechanism inherent in the agency form to allocate resources efficiently.[46] Since there is no cost control mechanism in the equation, the transition from ministry department form to autonomous agency form may improve *effectiveness* but may not improve *efficiency*. Cost rises could outstrip increases in the benefits, in which case efficiency would fall.

3.6.5 State ownership of training corporations

In our discussion, we have maintained a distinction between *corporatisation* and *privatisation*. In principle there is not necessarily any difference in management and operations between a state owned corporation and a privately owned corporation, assuming that the laws and regulations are the same for both. But herein lies the crux of the problem. Only if state corporations operate *purely on the basis of best business practices* can the market playing ground be truly level. But if the state corporation is operating purely on the basis of best business practices, what is the rationale for state ownership rather than private ownership?

One answer can be found in the capital injection in response to Amu's financial crisis. Amu was corporatised in order to gain the efficiencies of the marketplace. That presupposes the existence of a market, which implies both a demand side and a supply side. If Amu *must* survive, while private sector training organisations can survive or fail, then Amu must be perceived as a 'trainer of last resort'. State ownership (or at least strong participation in

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[46] The practice of outsourcing can ameliorate the problem somewhat.

ownership) serves as a guarantee that even if other training organisations fail, there will always be at least *one* supplier. There is a risk, however, that capital injection becomes a regular occurrence, which would effectively undermine the conditions for market development.

This may give a clue to the problem of how to corporatise a training department or agency. It is probably safe to assume that initially, the transition to a corporate form will involve retrenchment. Thus, one of the most urgent tasks during the first phase of corporate development will be getting out from under the cost commitments carried over from the earlier form. There will thus be costs for reconstruction. Until the organisation is under sound business management, it will usually be not be possible to make good estimates of the costs of retrenchment. The owner – state or private – should be prepared from the outset to make a *one time capital injection* to cover the costs reconstruction. It should also be clear that the capital injection is a one-shot event. Any subsequent capital injections should be made on the same kind of business considerations that guide capital injections in any private sector business.

3.6.6 Organisational form and quality and cost of employment training

The aim of this section is to examine some of the larger issues and draw some conclusions based on the evidence presented above. The first issue must be the quality and cost of employment training. It is easy to say that since the LANs are free today to buy whatever training the market offers and to find the best prices, the quality must be higher and the cost must be lower than before. Such a position, of course, might simply indicate a blind faith in the ability of market forces to yield optimal resource allocation.

Real unit costs of training have clearly fallen since the reforms of 1986 and 1993, especially since 1993. Competition in the employment training market has been a driving force, but unit costs have fallen because training productivity has risen: fewer trainers have trained more people. This is partly a reflection of a reduction in the duration of training courses, which has been made possible through more sharply focused training programs, more individualised training using modern instructional technology, and more efficient teaching methods.

As to quality, there has been a growing appreciation for the need to view quality in relation to labour market demand. During the division period, quality was viewed in pedagogical terms; today quality is seen as a function of success in job placement and retention. When the LANs procure training, one of the selection criteria for the winning bid is often the company's record in success in job placement and retention. Meanwhile, labour market authorities have come to the realisation that the earlier distinction between 'training' and other kinds of measures (e.g., start your own business subsidy or recruitment support) is not appropriate. It is not a question of *either* training *or* other measures but of *combinations* of inputs including training (e.g., training *and* start your own business subsidy or training *and* recruitment support). With training seen as an integrated part of a broader package, it is easier to obtain a sharp focus for the training inputs.

3.6.7 AmuGruppen's market position

Although AmuGruppen has been losing market share ever since the reform of 1986, it is still by far the largest employment training organisation in Sweden. Since corporatisation it has faced a severe financial crisis due to external factors, suffered losses, re-structured, developed new products, identified new niches, and finally – after the capital injection – shown a corporate profit (1997 and 1998).

As with all corporations, however, its future rests on its ability to change with changing market conditions. Sweden is now (autumn 1999) emerging from a period of extraordinarily high unemployment. This could lead to a new decline in the demand for employment training. Such a decline now would present a challenge to all suppliers, but it could perhaps yield relative gains to AmuGruppen, since AmuGruppen is of sufficient scale that it can invest in establishing new market niches and new products.

In times of market compression, mergers are sometimes seen as strategy for survival. Acquisition of some smaller training organisations could also be a survival strategy for AmuGruppen if it is sufficiently profitable and if it has sufficiently strong financial backing.

An alternative development is that parts of Amu might be sold to other training organisations. Even such a move *could* leave Amu in a stronger position if the appropriate strategy were used. Selling off bits and pieces of Amu could, however, simply be a strategy for the state to divest itself of an unwanted state-owned enterprise at a time when such cosy arrangements are in disrepute in Sweden.

3.6.8 Final remarks

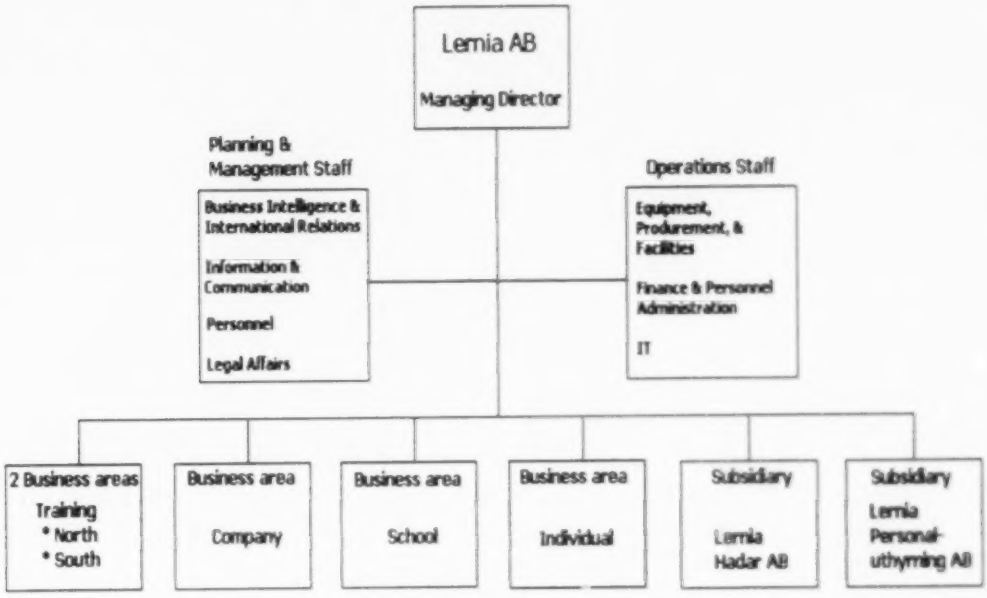
It is important for the state that there be a good supply of employment training throughout the country. It is surely the responsibility of government to ensure that such a supply is secure. There is no reason to believe, however, that only a public sector supplier can provide the quantity and quality of training, at the right price. The Swedish experience suggests that if government can ensure demand, the market can ensure supply. The fact that Amu in 1999 is still the largest supplier of employment training is in no way evidence suggesting that state ownership is necessary. Today AmuGruppen operates on business principles under corporate law, like any other corporation. A necessary condition for its survival and a necessary condition for the survival of a training market is that it operates like any other business – covering its costs and showing a profit.

There is one area for which the Swedish case history does not provide evidence. There might be some kinds of employment training for which a training market would not develop even if the state guarantees the demand. This might happen because the market is so small or irregular that no private supplier would be willing to offer the required services. In European countries, however, with their well-developed infrastructure, enlightened populations, entrepreneurial traditions, and capital markets, it is difficult to imagine that suppliers would not emerge where government expressed demand.

3.6.9 Epilogue - beyond AMU

As this report went for publication, further developments in the Amu story occurred. On 15 March 2000, AmuGruppen was reorganised and renamed 'Lernia'. The name is suggestive of the new image the organisation wants to establish and the new markets the organisation would serve. The new organisational structure, shown in Figure 17, is superficially reminiscent of the structure shown in Figure 15, but it is based on very different and very modern market ideas.

Figure 17 Organisation of AmuGruppen in 2000



Previously, throughout its history, AmuGruppen worked mostly with vocational training in cooperation with the labour market authorities. Then something happened. The reforms of 1986 and 1993 not only opened up a training market, but also led to new ways of thinking about labour market training. Meanwhile, in unrelated developments, educators began to change their ways of thinking about teaching and learning; new and more efficient pedagogical approaches were evolving. In a bold and dramatic effort to survive in today's market, AmuGruppen combined these two new strands of thinking and recreated itself as Lernia.

Today Lernia covers a wide range of markets related to learning, and the logic of these markets is becoming increasingly distinct. AmuGruppen's traditional market – the labour market authorities – is today only one of several. Corporate training represents a second market, seen today as a completely different market from employment training. Schools represent a third market, and Lernia now has the legal right to manage schools. A fourth market is represented by individuals who, for whatever reason, want to learn new skills. Training for persons with handicaps (Lernia Hadar AB) and temporary personnel services (Lerning personaluthyrning AB) continue serving markets opened earlier.

Although these markets operate under quite different conditions, they are all served under the single corporate name of 'Lernia'. That enables Lernia to be seen as a "complete competence supplier". No wonder the image had to be changed! The new business idea is vastly different from the old business idea emerging from the earlier history of the organisation: "Develop the masses for a changeable working life". The training services are no longer aimed only at unemployed persons, persons in danger of becoming unemployed, or enterprises in need of restructuring. Today the training services are aimed at all people who work, because they all need to change to meet changing demand for competence.

This new business idea not only opens up the organisation to massive new and interesting markets – it also has the potential for efficiently utilising its large and nation-wide competence resource base. After a long and tortuous journey, Lernia has emerged as a nation-wide, complete competence supplier in a learning society.

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Long-term changes in Sweden and the Netherlands

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The public sector is undergoing radical changes due to internal as well as external pressure to increase efficiency. Consequently, the public sector is becoming less concerned with who is providing a given service while becoming more concerned about the quality, reliability, accessibility and price of the service in question. New management strategies are therefore being introduced, and public organisations are becoming streamlined or even privatised.

This report examines some of these changes specifically within the Netherlands and Sweden. The Dutch analysis focuses on the organisational changes and the rationale behind them, while the Swedish analysis focuses more on the political processes.

The corporatisation of the Swedish public training provision system, the AmuGruppen, is a clear example of deregulation and market orientation of a former, highly public body with an almost monopolistic position. The establishment of regional training centres (ROCs) in the Netherlands, which has resulted in a drop of publicly funded VET institutions from 396 to 65 institutions, is an example of the reorganisation of public organisations.

Ms Jittie Brandsma, Mr Richard Noonan, Mr Sven-Åge Westphalen

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